# COVER SHEET

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

| Enrique Oliver Rey-Matias | 8-631-8101 |
|---|---|
| (Contact Person) | (Company Telephone Number) |

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| (Calendar Year) | | | | | (Form Type) | | | | | (Annual Meeting) | | | |

| Not Applicable |
|---|
| (Secondary License Type, If Applicable) |

| | Article X |
|---|---|
| Dept. Requiring this Doc. | Amended Articles Number/Section |

| 3,109 | Total Amount of Borrowings | |
|---|---|---|
| Total No. of Stockholders | Domestic | Foreign |

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To be accomplished by SEC Personnel concerned

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RFM CORPORATION

# STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED COMPANY FINANCIAL STATEMENTS

Securities and Exchange Commission
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

The management of RFM Corporation is responsible for the preparation and fair presentation of the consolidated company's financial statements including the schedules attached therein, for the years ended December 31, 2022 and December 31, 2021, in accordance with the Philippine Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated company's financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated company's financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting or to cease operations or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

The Board of Directors reviews and approves the consolidated company's financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres Velayo & Co., the independent auditor appointed by the stockholders has audited the consolidated company's financial statements in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members has expressed its opinion on the fairness of presentation upon completion of such audit.

Signed this 23rd day of March 2023.

**Jose Maria Concepcion III**
Chairman of the Board / President & CEO

**Enrique Oliver Rey-Matias**
VP-Chief Finance Officer

23 MAR 2023

SUBSCRIBED AND SWORN to before me this _____ day of _____2023 affiant(s) exhibiting to me his/her Passport as follows:

| Names | Passport Number | Date of Issue / Expiry | Place of Issue |
|---|---|---|---|
| Jose Maria Concepcion III | P6956061B | 25 Jan 2023/ 25 Jan 2033 | DFA, Manila |
| Enrique Oliver Rey-Matias | P9591666B | 12 Apr 2022/ 11 Apr 2032 | DFA, Manila |

Doc No. 108
Page No. 23
Book No. I
Series of 2023

MITCHIE VANESSA T. MAGOMNANG
Notary Public for and Mandaluyong City
Notarial Commission No. 0475-23
Commission expires on 31 December 2024
8th Floor, RFM Corporate Center
Pioneer corner Sheridan Sts., Mandaluyong City
PTR No. 5110554, Jan 4, 2023, Mandaluyong City
IBP Lifetime Member No. 09975
Roll of Attorneys No. 53187
MCLE Compliance No. VII-0020958
Valid until April 14, 2025

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly notarized, in the City of Mandaluyong on _____.

**RFM Corporation**

By:

**JOSE MARIA CONCEPCION III**
Chairman of the Board / President & CEO

**ENRIQUE OLIVER I. REY MATIAS**
Vice President – CFO

SUBSCRIBED AND SWORN to before me this 23 MAR 2023 day of _____, 2023 affiants exhibiting their Passport as follows:

| Names | Passport Number | Date of Issue / Expiry | Place of Issue |
|---|---|---|---|
| Jose Maria Concepcion III | P6956061B | 25 Jan 2023/ 25 Jan 2033 | DFA, Manila |
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MCLE Compliance No. VII-0020958
Valid until April 14, 2025

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-A**

**ANNUAL REPORT PURSUANT TO SECTION 11 OF THE REVISED SECURITIES ACT AND SECTION 141 OF CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2022**

2. SEC Identification Number **12998** 3. BIR Tax Identification Number **000-064-134-000**

4. Exact name of registrant as specified in its charter: **RFM CORPORATION**

5. **Philippines** 6. (SEC Use Only)
Province, Country or other jurisdiction of Incorporation or organization — Industry Classification Code:

7. **RFM Corporate Center, Corner Pioneer and Sheridan Streets, Mandaluyong City** **1550**
Address of principal office — Postal Code

8. **(632) 631-81-01**
Issuer's telephone number, including area code

9. **Not applicable**
Former name, former address, and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or SEC 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| **Common Stock, P1.00 par value** | **3,369,549,358 shares** |

11. Are any or all of these securities listed in the Philippine Stock Exchange?
Yes [ ✓ ] No [ ]

All of RFM Corporation's common shares are listed at the Philippine Stock Exchange.

12. The registrant:
a. has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):

Yes [ ✓ ] No [ ]

b. has been subject to such filing requirements for the past 90 days.
Yes [ ✓ ] No [ ]

13. Aggregate value of the voting stock held by non-affiliates: **P 284 Million**

14. Documents incorporated by reference. **None**

## PART I – BUSINESS AND GENERAL INFORMATION

### Item 1 - Business

**The RFM Group**

RFM Corporation (the "Company") is a major player in the food and beverage industry in the Philippines, specifically in the processing and manufacture of flour, bread, flour-based products like pasta and cake mixes, sauces, milk and juice drinks, and ice cream.

The Company also operates non-food businesses, which include barging services (Rizal Lighterage Corporation) and leasing of commercial/office spaces that serves the internal requirement of the various operating divisions.

**History and Business Development**

RFM Corporation was incorporated on August 16, 1957 as Republic Flour Mills, Inc. to manufacture flour in the Philippines, a country which does not grow wheat, in order to contribute to the country's greater self-reliance in basic food. From its original business of flour milling, the Company diversified into poultry and livestock production and areas of food manufacturing that includes flour-based products, margarine, milk & juices, canned and processed meat, ice cream, and bottled mineral water.

After RFM established itself in the flour milling business, the Company, in 1963, commissioned new plant facilities to produce cooking oil and margarine. This was then followed by the establishment of a feed mill in 1965 to manufacture poultry and hog feeds, of which key raw materials – bran and pollard – were by-products of the flour operations.

In the early 1971, RFM integrated forward into hog and poultry breeding. It entered into a licensing agreement with Peterson Industries and H & N Layers to breed day-old chicks. The Company, though, divested from the hog operation in 1994, and in the poultry business in 2003 by way of property dividends to its shareholders.

In 1973, the Company signed an exclusive licensing agreement with Swift and Company of Illinois (now Armour Swift & Echrich of the ConAgra Group). This move initiated the entry of RFM into the business of chilled and canned meat processing using the "Swift" brand name. A continuous meat processing plant, the first in the country, was constructed in 1975. The "Swift" brand name was eventually purchased by RFM in 1987, allowing the Company the rights to its exclusive use in the Philippines. The "Swift" brand name is being shared by RFM and Swift Foods, Inc. in their production and sale of processed meat and chicken products, respectively.

From the 1970s to 1980s, RFM concentrated primarily on growing its established core businesses. It also introduced grocery items, such as cake mixes, hotcake mixes, and ingredient mixes during this period.

As RFM began to enter the 1990s, it envisioned itself to become a truly diversified Food Company catering to the Filipino taste. This goal was and continues to be implemented through two approaches: strategic acquisition of Filipino companies with strong local brands, and partnerships with internationally renowned food institutions.

This vision was first manifested in the purchase of Cosmos Bottling Corporation (Cosmos), a Filipino softdrinks company, in 1989, from the Wong Family. Then in 1990, RFM acquired the "Selecta" trademark from the Arce Family. RFM invested in new machinery under a new company, Selecta Dairy Products, Inc. (Selecta), to mass produce the locally famous ice cream flavors within international health standards. And in 1993, the Company ventured into the production of ready-to-drink (RTD) ultra-heat treated (UHT) milk and juices in tetra-packaged format using the brand names Selecta Moo and Sunkist, respectively.

In 1994, Swift, Selecta, and Cosmos conducted an initial public offering of its shares of stock through the Philippine Stock Exchange.

A year later, in 1995, the Company incorporated RFM Properties and Holdings, Inc. to consolidate its real estate assets as well as to break into the land and housing development business. The company was later renamed Philippine Townships, Inc. In 2008, the company was again renamed to Philtown Properties, Inc.

RFM continued to expand its businesses as it ventured into noodle manufacturing, tuna processing, bakeshop business with the acquisition of the Rolling Pin trademark, food franchising with the use of Little Ceasar's Pizza brand of the USA, and thrift banking under Consumer Bank.

The Asian Financial Crisis of 1997, however, put a halt to the business expansion of RFM. The ensuing economic slowdown, more cutthroat market competition, and the dearth of capital financing weighed heavily on the financial operations of the Company. Furthermore, the US$83.7M bond, which it obtained in 1996, became due in 2001, and its payment forced RFM to sell many of its operating subsidiaries, including Consumer Bank which was sold to Philippine Bank of Communications, and Cosmos which was sold to Coca-Cola Inc. and San Miguel Corporation.

In 2003, the company's common shares from Swift Foods, Inc. were declared as property dividends to its stockholders. Likewise, the company's common shares from Philtown Properties, Inc. (formerly Philippine Townships, Inc.), the property company, were declared as property dividends in tranches in 2008, 2009 and 2012. However, the company remains committed in liquidating its landholdings through the development of middle income housing enclaves. It also builds condominium projects in saleable areas in Fort Bonifacio, Rockwell, and Taft.

The remaining business, nevertheless, gives RFM the foundation to build on. Within the Parent Company, the original business of flour making continues; as well as branded food products such as Swift processed chilled and canned meats like hotdogs, vienna sausage, and corned beef, Sunkist Juices, Selecta Milk, Fiesta Pasta Noodles, White King Hot Cake, Butterfresh Margarine, among others. The ice cream business remains profitable and is presently co-owned with Unilever Philippines, under a new corporate name, Unilever RFM Ice Cream, Inc.

In late 2012, RFM entered into a Trademark and Asset Purchase Agreement with The Pacific Meat Company, Inc. (PMCI). The terms of this agreement includes RFM's sale of the "Swift" brand, together with finished goods and raw material inventories, the goodwill of the business connected with the trademarks used for its canned, pouch flexible heat sterilized, refrigerated, chilled and frozen meat products, and certain machinery and equipment, as well as all product formulations, processes, know-how and other technical information relating to the production of meat products.

Early 2014, RFM purchased the Royal pasta trademark and inventory stocks from Unilever Philippines, Inc. (ULP). The company believes this would allow RFM to tighter its market leadership in the pasta category.

## The Group and the Products

### *Food Businesses*

RFM Corporation (Parent Company)

RFM Corporation operates two major business segments:

- Institutional segment, which primarily manufactures and sells flour, bakery and other bakery products to institutional customers; and
- Consumer segment, that manufactures and sells ice cream, milk and juices, pasta products, and flour and rice-based mixes.

See table on sales.

Unilever RFM Ice Cream, Inc. (formerly Selecta Wall's Inc.)

Unilever RFM Ice Cream, Inc. is a joint venture enterprise owned 50%-50% by RFM Corporation and Unilever Philippines, Inc. It is engaged in the business of manufacturing, marketing, distributing and selling, importing and exporting of ice cream, ice cream desserts and ice cream novelties, and similar food products.

RFM Foods Philippines Corporation

Established in 1991 as RFM-Indofood Philippines Corporation, then a joint venture company between RFM Corporation and Indofood of the Salim Group of Indonesia, the company's main product lines were instant noodles of various flavors and packaging. The Company, however, ceased operations in October 2000 due to operating losses. The company has been renamed RFM Foods Philippines Corporation, and remains dormant.

Southstar Bottled Water Company, Inc.

Southstar Bottled Water Company, Inc. (Southstar) was incorporated in 1992 to manufacture and distribute all kinds and classes of bottled water, carbonated water, drinking water, fluoridated water, mineral water, natural water, purified water, spring water, well water, flavored water, as well as bottling equipment, purification equipment, coolers, dispensers, water treatment plants, water bottling plants, bottles, crates, including their accessories, attachments, spare parts and any merchandise of similar nature. Southstar, however, suspended its operations due to sustained operating losses.

Engrain – RFM Pacific, Inc.

Engrain – RFM Pacific Inc. (ERPI) is a joint venture owned 50% - 50% by RFM Corporation and Engrain LLC. It was incorporated in June 2013 to engage in the business of selling, marketing and distributing wholesale enzyme-enhanced flour and products for the Philippines and Asia Pacific market.

FWBC Holdings, Inc.

FWBC Holdings, Inc. is 83.38% owned by RFM Corporation, and organized in 2001 to hold and manage Filipinas Water Bottling Corporation (FWBC). FWBC is involved in the processing and distribution of bottled mountain spring water. FWBC, however, ceased operations in June 2012 due to operating losses.

***Non-Food Businesses***

RFM Equities, Inc.

RFM Equities Inc. is a holding company that is 100% owned by RFM. It was organized in 1996 to hold and manage RFM Corporation's holdings in two small financial services subsidiaries – Conglomerate Securities and Financing Corporation (CSFC) and RFM Insurance Brokers, Inc. (RIBI). CSFC provides consumer-financing services mainly to the managers and employees of the RFM Group. RIBI meanwhile services the insurance needs mainly of the RFM Group, affiliates and business partners. In January 2014, shares in both CSFC and RIBI had been sold.

Rizal Lighterage Corporation

Rizal Lighterage Corporation (RLC) is a barging company that is 93.51% owned by RFM Corporation. It is primarily engaged in providing lighterage and cargo handling services.

WS Holdings, Inc.

WS Holdings, Inc. is 60% owned by RFM Corporation and 40% owned by Unilever Philippines, Inc. It was incorporated and registered with the Securities and Exchange Commission in 1999 to invest in, purchase and own shares of stocks, bonds and other securities of obligations including real estate and personal property of any foreign or domestic corporation, or partnership, or association.

Selecta Wall's Land Corporation

Selecta Wall's Land Corporation was incorporated in 1999 to acquire, own, use, develop and hold for investment all kinds of real estate. RFM Corporation owns 35% of this company.

**Contribution to Sales**

The Group is primarily engaged in manufacturing, milling, and marketing of food and beverage products. The Group operates its business through the business units identified below. Information as to the relative contribution of the divisions and business to total sales are as follows:

| **Business Unit** | **Products** | **Brands** | **Contribution to Sales** |
|---|---|---|---|
| Institutional Group | Flour Products | Republic Special, Cinderella, Hi-Pro Majestic, Señorita, Pantastic, Altar Bread, Customized Flour, All-Purpose Flour, Cake Flour | 27.37% |
| | Hamburger buns, English muffins | | |
| Consumer Group | Flour-based and rice-based products | White King All-Purpose Flour, White King Hotcake Mixes, White King Native Mixes, White King Baking Mixes, White King Bowl Mixes | 72.24% |
| | Pasta | Fiesta Spaghetti, Fiesta Elbow Macaroni, Fiesta Salad Macaroni, Royal Spaghetti, Royal Elbow Macaroni, Royal Salad Macaroni, Royal Linguine, and Royal Penne | |
| | Spaghetti Sauce | Fiesta Sweet Spaghetti Sauce, Fiesta 3-Cheese Spaghetti Sauce, Fiesta Filipino Style Spaghetti Sauce, Royal Sweet Style Spaghetti Sauce | |
| | Spaghetti and Sauce bundles | P119 Fiesta Sweet Spaghettipid, P119 Fiesta 3 Cheese Spaghettipid, P109 Fiesta Filipino Spaghettipid, P59 Sweet Spaghettipid, Fiesta Spartyghetti, Royal Sweet Celebration, and Royal Cheesy Celebration | |
| | Margarine | Selecta Butterfresh | |

| | | | |
|---|---|---|---|
| | RTD Juice, RTD Tea, RTD Milk and Choco Milk, RTD Flavored Milk and RTD Functional Drinks | Sunkist Premium Juice, Sunkist Tetra Juice Drink, Sunkist Juice Drink Doy Packs, Sunco Green Tea and Lemon Tea (Export only), Selecta Moo, Selecta Fortified Low Fat Choco, Selecta Fortified Low Fat Milk, Selecta Fortified Filled Milk, Selecta Fortified Vanilla Milk, Selecta Full Cream Milk, Choco Yey! | |
| | Ice Cream products | Selecta Supreme, Selecta Super Thick Classic, Selecta Birthday 3-in-1, Selecta Co-brand, Carte D'or, Magnum, Selecta Cornetto, Selecta Cornetto Disc, Selecta Ice Cream Sticks, Selecta Pinipig, Selecta Ice Cream Sandwich, Paddle Pop Watermelon | |
| Others | | | 0.38% |

**Domestic and Export Sales**

The amounts of revenue, profitability, and identifiable assets attributable to domestic and export operations for 2022, 2021 and 2020 in **Million Pesos** are as follows:

| | **2022** | **%** | 2021 | % | 2020 | % |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Domestic | **19,149** | **99** | 16,710 | 99 | 15,473 | 99 |
| Foreign (Export) | **237** | **1** | 170 | 1 | 228 | 1 |
| | **19,386** | | 16,879 | | 15,701 | |

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Operating income | | | |
| Domestic | **1,341** | 1,721 | 1,747 |
| Foreign (Export) | **60** | 43 | 66 |
| | **1,401** | 1,764 | 1,813 |

| | | | |
|---|---|---|---|
| Total Assets (All Domestic) | **20,858** | 19,860 | 18,996 |

Distribution Methods of the Products or Services

The company engages in different methods of distribution depending on the products/services to meet the needs of customers.

RFM Corporation sells its products through the following accounts: modern trade accounts, distributor accounts, secondary accounts, food service, institutional customers, flour dealers, flour end users and Good Values company store. Modern trade and distributor accounts comprised of hypermarkets, supermarkets, groceries, convenience stores and wholesalers.

**Status of New products, Market and Competition**

In 2022, RFM is still biggest manufacturer of pasta and sauce as it continues to strengthen its two major pasta brands, Fiesta and Royal, through distribution, placement, and visibility campaigns for its core products. Despite a challenging year in 2022 due to high inflation and increasing raw material costs, both Fiesta and Royal were still able to perform better than expected. Coming into 2023, RFM's objective is to re-excite the category with new product innovations and by making aspirational and expensive consumer products more accessible and affordable for the Filipino masses.

**FIESTA**

**Re-exciting the Category and Drive Spaghetti Consumption**

Fiesta, as the market leader in total spaghetti, looked for ways to expand and grow the pasta and sauce category further. With innovation still under development, Fiesta focused primarily on placing and distributing its products through relevant channels. It also focused on making sure its visibility and share on the shelf were reflective of its market leadership, especially for its dish bundles (spaghetti + sauce bundles). Strategic pricing was also one of the key moves the brand did against its key competitors.

Moving forward to 2023, Fiesta will re-excite the category with a new product innovation that is a first of its kind. This innovation will take something that was costly and complicated to do and make it affordable and easy to prepare.

**ROYAL**

**Success in Expanding Royal's Pasta Equity to Other Categories**

In 2022, Royal still focused its efforts on growing its dish bundles. Growth came from full placement and visibility in key channels and stores, as well as from dedicated in-store activities and promotions. The constant focus on dish bundles continues to drive Royal, and it remains a strong #3 brand in the dish bundle category.

Aside from dish bundles, Royal also focused on expanding its spaghetti sauces, going up against a market leader with a 55% share. Royal aimed to make spaghetti sauces more convenient, accessible, and affordable by launching its PARTY PACK: Buy 2 Sauces and Save as much as P40. Since the launch of this promo, total Royal Spaghetti Sauce sales have grown by x5.

Moving forward to 2023, Royal will continue its success in entering new categories by taking aspirational but expensive products and making them affordable and accessible to the masses. It will still position itself as a premium brand that offers better-value products. The brand will take advantage of the current evolving Philippine economy by targeting the growing middle-class segment.

**SELECTA MILK & SUNKIST JUICE**
Selecta continued its aggressive growth recording another double digit increase of +25% versus previous year, despite challenges in increasing costs of raw and packaging materials globally. This is achieved by staying true to its promise of providing affordable nutrition to Filipinos.

Based on Nielsen Retail Audit, Selecta Fortified Milk continues to be the #1 brand of RTD fresh/filled milk for FY 2022 – with strong growth coming from smaller channels such as groceries and convenience stores, making the product closer to Filipino households. Selecta Farm Fresh Milk was also launched last year – a pure-tasting milk that is affordable and nutritious. Launched in April 2022, this product was successfully able to gain 2% volume market share in just 9 months! In total, Selecta achieved 30% full year volume market share in the fresh/filled segment.

Meanwhile, Selecta Sterilized Milk and Selecta Moo increased by +31% and +44% respectively as economy opened up in 2022. Selecta Sterilized capitalized on the increasing number of Filipinos returning to workplaces as this is usually drank during breaktimes or while going to work. Selecta Moo on the other hand increased as face-to-face classes also resumed last year.

Similar to Selecta Sterilized and Moo, Sunkist Juices grew exponentially at +125% driven by DOY and Tetra juices which Filipinos chose as "baon" to their kids at school or as "meryenda" at work.

The Selecta Ice Cream business, under the joint venture with Unilever Philippines, Inc. (ULP) continues to lead the Ice Cream category both in Bulk/Take Home (72% Share*) and Single-Served/Out-of-Home (30% Share*). Through the years, it has launched various Ice Cream innovations across both segments. Within Take Home Ice Cream, Selecta caters to a wide range of consumers through its many brands: Selecta Supreme offers trendy and all-time-favorite flavors; Creamdae is 'responsibly-made-for-kids' and offers multiple flavors in one pack; and premium brands such as Grom, Magnum and Hersheys Cobranded Ice Cream provide indulgent experiences to Ice Cream lovers. On Impulse, Cornetto continues to bring great Ice Cream in a cone both in its core and disc formats. Magnum continues to expand and is now offering vegan options for consumers. Finally, Selecta is also offering delicious and affordable Ice Cream in multiple flavors, shapes and sizes. Competing companies such as Nestle (7% share) and Magnolia (1% share) are still present particularly in Take Home while low-priced brands like Aice, Joyice, Creamline and Dan Erics continue to gain share through aggressive expansion.

For the flour business, the company continues to provide commodity flour to several institutional accounts and flour-based product manufacturers and retailers like biscuits, noodles cakes and bread-makers. There are eleven flour millers in the country, under two trade associations – Philippine Association of Flour Millers (PAFMIL) and Chamber of Philippine Flour Millers, Inc. (Champflour). RFM Corporation is a member of PAFMIL. The Company has about 8% to 9% of total industry volume sales.

**Purchases of Raw Materials and Supplies**

RFM Corporation sources Raw, Packaging materials and OEM Spare Parts both domestic and overseas.

The Company imports Wheat from U.S. Tomato Paste coming from China.

Skimmed Milk Powder currently sourced from U.S. and New Zealand, while, Buttermilk Powder and Anhydrous Milk Fat mostly bought from Oceania region. Dairy products open for supplies from Indian origins and European regions.

Regain the importation of Spaghetti Pasta finished goods from Turkey and U.A.E.

Other imported materials and/or Spares procured from countries such as, but not limited to, U.S., Canada, Australia, China, Singapore, Malaysia, Indonesia and Thailand.

Payment terms vary for each supplier. It ranges from Letter of Credit, Documents against Payment at Sight, Telegraphic Transfer and other applicable payment terms agreeable to both parties.

**Customers**

RFM Corporation has a wide range of products that cater to all socio-economic class and all age groups.

Its products are sold through hypermarkets, supermarkets, groceries, convenience stores, drug stores, wholesalers, distributors, institutional customers, food establishments, flour dealers, flour end users and the company store.

RFM Corporation is not dependent on any single or few customers that might have any material adverse effect on its business, except for the processing and exclusive sale of hamburger buns, muffins and hotcake to Golden Arches (McDonald's). These buns account for about 94% of the total sales of Private Label Manufacturing Division of RFM Corporation in 2022 and 96% in 2021.

**Related Party Transactions**

The Group, in the regular course of business, transact with related parties, which may consist but not limited to the following:

- Purchase of goods and services.
- Lease of the plant, property and equipment for manufacturing operations.
- Lease of office spaces as Lessor
- Distribution, sale and merchandising of RFM Group products.
- Service Agreement with Unilever Philippines.
- Management service income and service fees with URIC.

**Trademark, Royalty and Patents**

A Trademark License Agreement was entered into with Unilever RFM Ice Cream, Inc. for the exclusive right to use the "Selecta" trademarks in its ice cream products and to manufacture, market, and sell Selecta trademarked products. The agreement shall be co-terminus with the Joint Venture Agreement between RFM Corporation and Unilever Philippines, Inc. The license is free from royalty fee and any similar kind of payment. The Trademark License Agreement was extended for another ten (10) years, or from July 17, 2014 to July 17, 2024.

On 01 January 1995, RFM entered into a Trademark License Agreement (TLA) with Sunkist Growers, Inc. (Sunkist). Under the said agreement, Sunkist grants RFM (a) exclusive right, without the right to sublicense, to use the Sunkist Trademark(s) and related Trade dress approved by Sunkist, in connection with the marketing, distribution and sale of licensed products in the Philippines; (b) exclusive right, without the right to sublicense, to use the Know-How within the Philippines for the production and sale of Licensed Products; (c) the right and privilege to receive technical assistance regarding the implementation of Know-How; and (d) to make available Base Ingredients directly or through authorized Base Ingredients Suppliers to enable RFM to manufacture Licensed Products. For and in consideration of the rights granted above, RFM pays an annual royalty to Sunkist. The Amendment to the TLA was extended for another five (5) years or from 01 January 2005 to 31 December 2009. Another Amendment extending the TLA for another five years was signed by the Parties on 27 January 2010.

On 13 March 2009, Swift Foods, Inc. (SFI) re-assigned and returned to RFM all its rights and interests in the well-known Swift trademark. IPO registration of the mark has been transferred under RFM and a new Certificate of Registration has accordingly been issued to RFM.

In late 2012, RFM entered into a Trademark and Asset Purchase Agreement with The Pacific Meat Company, Inc. (PMCI). The terms of this agreement includes RFM's sale of the "Swift" brand, together with finished goods and raw material inventories, the goodwill of the business connected with the trademarks used for its canned, pouch flexible heat sterilized, refrigerated, chilled and frozen meat products, and certain machinery

and equipment, as well as all product formulations, processes, know-how and other technical information relating to the production of meat products.

In January 2014, the Group acquired the Royal trademark from the Unilever Group for ₱2.1 billion (US$46.0 million) and expiring on December 29, 2026.

**Need for Any Government Approval of Principal Products and Compliance with Environmental Laws**

The Group complies with environmental laws and secures government approval for all its products. The Company has existing permits from various government agencies that include the Bureau of Food and Drug (BFAD) and the City Environment and Natural Resources Office (CENRO). The Company also complies with the requirements of Laguna Lake Development Authority (LLDA) for environmental sanitation purposes.

The Company believes that it has complied with all applicable environmental laws and regulations, and incurred about ₱319,878.40 and ₱246,155.37 during the years 2022 and 2021, respectively, for payment of annual permits and fees.

The Group has no knowledge of recent or impending legislation, the implementation of which can result in a material adverse effect on the business or financial condition.

**Research and Development Activities**

The Company invests in Research and Development (R&D) which is necessary for corporate viability. R&D activities focus on customer and consumer satisfaction through innovation via new product development and/or improvement, in new or existing categories via line extensions and formulation review. The development process starts from idea generation/brainstorming that leads to prototype development. Market research activities such as focus group discussions and product tests are done to ensure we are guided by consumer insights and needs. Product standards and specifications are then established including process parameters, equipment/line efficiencies, packaging studies and shelf-life tests. Every product launched in the market had undergone stringent quality control checks to ensure sensory acceptability, food safety and stability.

Aside from Product development, Packaging also plays a critical role in ensuring safety of our products, hence, the Company hired full-time Packaging Engineers to handle testing of various materials suitable for each product type. Stability tests and shelf-life studies as well as transit tests are part of the total development process. Furthermore, process audits are done to ensure that set standards are strictly being followed, aside from making process improvements for better efficiency.

The Innovation Team, composed of R&D, Marketing and Operations group constantly meet to check project status and monitor deliverables and timelines to ensure flawless execution of new product launches.
We are constantly updated on trends and new technologies to keep us ahead of competition.

The Team conducts regular trade checks for stocks availability and maintain freshness policy.
With reference to regulatory requirements, we have designated personnel doing transactions with the Food and Drug Administration (FDA) to comply with all market requirements, both for local and export markets.

For the last three years, the Company spent about P 11.7 million in 2022, ₱10.3 million in 2021, ₱19.1 million in 2020 for research and development.

## Employees

As of December 31, 2022, the Company had approximately 503 employees, of which 12 are executives, 51 managers and 120 supervisory staff and 256 were non-supervisory staff. The Company does not anticipate any significant increase in the number of its employees in year 2022.

About 13% of the total employees of the Company and its subsidiaries are members of various labor unions. The Company and its subsidiaries have collective bargaining agreements with these unions.

The Company believes that its relationship with its employees is generally good. The Company has not recently experienced any material interruption of operations due to labor disagreements. Labor-Management Councils (LCMs) regularly meet to discuss and resolve work-place issues and production matters.

The employees are covered by retirement plans per division. The plans are trusteed, noncontributory defined benefit pension plan covering substantially all permanent employees of the Company. The Company has no stock option plan.

## Working Capital

The Company funds its working capital requirements through internally generated funds and from bank borrowings. The working capital finances the purchase of raw materials, inventory, salaries, administrative expenses, tax payments, and sales receivables until such sales receivables are converted into cash.

## Major Business Risks

Like any other business, risks are always considered in the ability or inability to achieve the business objectives and execute strategy effectively. RFM Corporation and its subsidiaries perceive the following business risks:

### *Financial Risk Management Objectives and Policies*

The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities and advances to and from related parties. The main purpose of these financial instruments includes raising funds for the Group's operations and managing identified financial risks. The Group has various other financial assets and financial liabilities such as other current receivables, other current assets and customers' deposits which arise directly from its operations. The main risk arising from the use of financial instruments is credit risk, liquidity risk, interest rate risk and foreign exchange risk.

*Credit risk*
Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. In addition, the Group transacts with financial institutions belonging to the top 25% of the industry, and/or those which provide the Group with long-term loans and/or short-term credit facilities.

The Group does not have significant concentrations of credit risk and does not enter into financial instruments to manage credit risk.

The credit quality of financial assets is managed by the Group using internal credit ratings. Credit quality of cash in banks and cash equivalents and AFS financial assets are based on the nature of the counterparty and the Group's internal rating system.

Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before their due dates, or upon call by the Group if there are no predetermined defined due dates. All other financial assets that are neither past due or impaired are classified as "Good" accounts.

*Liquidity risk*
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising fund to meet commitments from financial instruments.

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; through long-term and short-term debts obtained from financial institutions; through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary. Working capital requirements, on the other hand, are adequately addressed through short-term credit facilities from financial institutions. Trade receivables are kept within manageable levels.

*Interest rate risk*
The Group's exposure to changes in interest rates relates primarily to the Group's short-term and long-term debt obligations.

Management is tasked to minimize interest rate risk by having a mix of variable and fixed interest rates on its loans. Presently, the Group's short-term and long-term debts and obligations are market-determined, with the long-term debts and obligations interest rates based on PDST-F-1 plus a certain spread.
There is no other impact on the Group's equity other than those affecting the statement of income.

URICI is not expecting significant exposures to interest rate risk considering the short term maturities of its bank loans. There is no impact on the Groups equity other than those affecting the statement of income.

*Foreign exchange risk*
The Group's exposure to foreign exchange risk results from the Parent Company and URICI's business transactions and financing agreements denominated in foreign currencies.

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2021 and 2020.

***Market risks***

Market risks stems from new and/or existing re-launched products and/or new packaging at low prices being introduced in the market place by competitors. To address these competitive pressures, the Company continues to develop new products in innovative packaging formats to keep a hold on its consumers and increase market share. The strategy requires significant resources for market research, product development, and marketing and promotions. Attendant risks are inventory overstocks, spoilage, and warehousing cost if the new product launched in the market fails to take off. To manage these risks the Company has established a system where success indicators in the target market are closely being monitored and supported by effective supply chain management.

***Technological changes***

RFM Corporation has been in the flour manufacturing for several decades, and its operating mills are older than many of its competitors which have more modern equipment and, thus, better rated operating yields. To meet these challenges, the Company continues to provide sufficient repairs and maintenance on its equipment and continually upgrades sections of its facilities to remain at par with the modern machineries. Recent installations are a Buhler blending system which allowed for more efficiency in product mixing and

customization; and a Buhler carousel packing and weighing system provides very accurate weighing of flour in bags. Likewise, in 2017, the Flour group were able to upgrade Mill II to increase production of All Purpose Flour and transfer some of the capacity of Mill 1B for production of pasta flour. In 2018, it upgraded Mill 1B to improve efficiency, yield and flour absorption. In addition, the Company spends in research and development, particularly in the areas of process engineering and wheat mixtures to produce higher flour yields.

In 2008, the Company invested in a new Buhler C-line Pasta Machine to service its growing market in the spaghetti noodles, under the Fiesta brand. The machine incorporates the patented Polymatik Extrusion Technology, which is presently one of the most advanced in raw material mixing processes, and produces pasta that is firmer, brighter, and with excellent heat tolerance. Further expanding the capacity of the pasta line, the Company invested and installed the Pasta Line 3 in 2014. This is to support the growing volume of the Pasta business.

Improvements, upgrades, and regular maintenance and repairs of its Aseptic Production Line allow the Milk and Juice Division to produce good quality ready-to-drink milk and chocolate-flavored milk. Later part of 2016, a new manufacturing line in Stand-Up pouch format for milk was installed, this is to provide new package format for milk in the market.

When PET line was discontinued its operations as part of the rationalizing RFM products in the basis of its profitability contributions to the total business, the area where the PET line is located was used to install the Spaghetti Sauce manufacturing lines last 2016. Sauce line capacity has been expanded last 2017 to 3 lines and last 2018 to 4 lines and in 2nd quarter of 2020, the 5th and 6th lines was fully operational to support the growing market volume. The company spend around P 91 million for the expansion with upgrade on older lines.

Technological advances in manufacturing sector contributed to hectic product competition in the market, RFM recognizes the need to update its technology for a more reliable quality and higher productivity. In 2011 and 2012, the Milk and Juice Division invested in improving and replacing its line instrumentation system which resulted to a fast and more accurate product quality monitoring which ensures that every package conforms to the quality standards. In 2013, the Milk and Juice Division production line was transferred to our Laguna factory compound upgrading it production processes through major overhauling of the machineries and installation of new and more efficient utilities. The production facility was rebuilt and upgraded to further improve compliance to the requirements of the Good Manufacturing Practices. The Company invested P150 Million to this transfer and upgrading. Later part of 2016, a new manufacturing line in Stand-Up pouch format for milk was installed, this is to provide new package format for milk in the market. However, to provide focus and synergy to milk business, driven by market changes and consumer preferences, the milk stand-up pouch format was discontinued.

On 2017, the major sterilizing equipment for Milk has been replaced with latest equipment which is designed for higher reliability of milk processing. In 2019, the company invested P 436M for expansion of milk processing and packaging line with upgraded technology and started its operations on 4th quarter of 2020.

Collaboration with technical experts in the field of food science and technology as well as manufacturing has been extended to foreign and local business partners to be updated in the latest food trends, equipment and raw materials sourcing. It has its sources of technology information via attendance to seminars, conferences, conventions, journal subscription and internet access to further enhance its research and development skills and manufacturing processes.

***Labor***

Like other firms in the food and beverage industry, the Company also partakes of the usual risks of labor unrest and grievances.

On 3 September 2018, the Company was impleaded in a complaint filed before the National Labor Relations Commission ("NLRC") NCR, Quezon City by a certain Larry Vic I. Ramos who was an employee of SP

Deloraya Job Contracting & Consultancy Services, Inc. ("SP Deloraya"), a third-party contractor which provides manpower services to the Company's Private Label Manufacturing Division. The complainant claimed that he was illegally dismissed and demanded payment of his wages, 13th month pay and regularization, among others. The Company argued that there exists no employer-employee relationship between the complainant and the Company, the complainant being the employee of its co-respondent SP Deloraya. That granting but without conceding that the complainant's abovementioned claims are legitimate, it is the complainant's employer who shall be made answerable to said claims. This being so, the inclusion of the Company and its officers in the case at bar is undoubtedly malicious, tainted with bad faith and misplaced. On 27 December 2018, the Labor Arbiter rendered a decision dismissing the above mentioned complaint, yet holding the Company solidarily liable with SP Deloraya for the payment of Complainant's 13th month pay. Complainant elevated the matter on appeal to the NLRC, which denied the same. On 09 September 2019, Complainant filed a Petition for Certiorari at the Court of Appeals (CA) against the resolution of the NLRC and this was decided in favor of the Company. Ramos then filed a Petition for Review on Certiorari with the Supreme Court where the case is still pending.

On 07 July 2022, the Company received a complaint for alleged illegal dismissal filed by Ms. Ronalie Romentas. Ms. Romentas was an employee of SP Deloraya Job Contracting & Consultancy Services, Inc., a third-party contractor which provides manpower services to RFM. The Company argued that there is no employer-employee relationship between RFM and Romentas, and that granting but without conceding that Romentas' above-mentioned claims are legitimate, it is her employer who shall be made answerable to said claims. The case is still pending before the Labor Arbiter.

**Item 2 – Properties**

RFM Corporation owns a flour milling plant with a daily rated capacity of 930 metric tons per day, and is located in Barangay Pineda, Pasig City. A pasta plant with a rated capacity of 3,000 kgs per hour per spaghetti line (2 lines) and 2,450 kgs per hour for macaroni line (1 line) is also located at RFM Pioneer Plant, Barangay Pineda, Pasig City. . A sauce lines (6 lines) located in Cabuyao, Laguna with a rated capacity of 192,000 kilograms per day. A milk and juice plant is located in Cabuyao, Laguna, and has a rated capacity of 11.58 million packs per month. The milk and juice Tetra plant currently has five (7) production Filling lines, of which four (6) are owned. Lines are running at 18 hours operation per line for 25 days.

In accordance with various loan agreements, the Company and its subsidiaries are restricted from performing certain corporate acts without the prior approval of the creditors, the more significant of which relate to entering into a corporate merger or consolidation, acting as guarantor or surety of obligation and acquiring treasury stocks. The Company and its subsidiaries are also required to maintain certain financial ratios. As of December 31, 2022, the why, including its subsidiaries are in compliance with terms and conditions of these agreements.

**A. Institutional Division**

| Description | LOCATION | CONDITION |
|---|---|---|
| Land – 32,937 sq. m. | Pineda, Pasig City | |
| Flour Mills Plant/Building/Silos/ Warehouse | Pineda, Pasig City | In good working condition |
| Flour Mills-Furniture & Office Equipment | Pineda, Pasig City | In good working condition |
| Flour Mills - Machinery and Equipment | Pineda, Pasig City | In good working condition |
| Bun Line | Fairlane, Pasig City | In good working condition |
| Muffin Line | Fairlane, Pasig City | In good working condition |
| Spice Mix Building | Fairlane, Pasig City | In good working condition |
| Warehouse Loading bay | Fairlane, Pasig City | In good working condition |
| Spaghetti Sauce Line | Cabuyao, Laguna | In good working condition |

**B. Consumer Division**

| Description | LOCATION | CONDITION |
|---|---|---|
| Pasta Plant/Office/Conference Room/Die Washing Room | Pineda, Pasig City | In good working condition |
| Pasta Plant – Furniture & Office Equipment | Pineda, Pasig City | In good working condition |
| Pasta Plant – Long goods line | Pineda, Pasig City | In good working condition |
| Pasta Plant – Long goods line | Pineda, Pasig City | In good working condition |
| Pasta Plant – Short goods line | Pineda, Pasig City | In good working condition |
| Pasta Plant – RM/PM Warehouse | Pineda, Pasig City | In good working condition |
| Pioneer CDC Warehouse | Pineda, Pasig City | In good working condition |

**Owned Properties**

| Description | LOCATION | CONDITION |
|---|---|---|
| Milk & Juices Tetra Machines | Cabuyao Laguna (transferred from Manggahan, Pasig City) | In good working condition |
| Doy Milk lines | Cabuyao Laguna | In good condition, but was transferred to sauce line for future product development |
| Spaghetti Sauce line | Cabuyao Laguna | In good condition |
| Fiesta Warehouse | Cabuyao Laguna | In good condition |
| Pioneer Business Park Building | Fairlane, Pasig City | Two (2) storey Building |
| Land & Improvements | Cabuyao, Laguna | In good working condition |
| Building & Improvements | Cabuyao, Laguna | In good working condition |
| Machinery & Equipment | Cabuyao, Laguna | In good working condition |

**C. Corporate Division**

| | | |
|---|---|---|
| RFM Building | Corner Pioneer & Sheridan Streets, Mandaluyong City | Eight (8)-storey building with Penthouse |

## Item 3 – Legal Proceedings

Lawsuits and legal actions are in the ordinary course of the Company's business. However, the Company or any of its subsidiaries is not currently involved in any material pending litigation or legal proceeding that could be expected to have a material adverse effect on the Company's financial position or its result of operations.

### Item 4 – Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of this calendar year covered by this report.

## PART II - OPERATIONAL AND FINANCIAL INFORMATION

### Item 5 – Market for Issuer's Common Equity and Related Stockholders' Matters

**(1) Market Information**

RFM shares are traded at the Philippine Stock Exchange (PSE). As of December 31, 2022, the total number of issued and outstanding shares of the Company is 3,369,549,358 common shares.

The following are the high and low prices per common share for each quarter within the last three calendar years:

| **2022** | High | Low |
|---|---|---|
| First Quarter | 4.60 | 4.60 |
| Second Quarter | 4.50 | 4.50 |
| Third Quarter | 4.65 | 4.65 |
| Fourth Quarter | 4.64 | 4.55 |

| **2021** | High | Low |
|---|---|---|
| First Quarter | 4.60 | 4.60 |
| Second Quarter | 4.50 | 4.50 |
| Third Quarter | 4.65 | 4.65 |
| Fourth Quarter | 4.64 | 4.55 |

| **2020** | High | Low |
|---|---|---|
| First Quarter | 4.69 | 4.23 |
| Second Quarter | 4.35 | 4.32 |
| Third Quarter | 4.79 | 4.76 |
| Fourth Quarter | 4.55 | 4.52 |

All shares of the Company are listed in the Philippines Stock Exchange.

The price of RFM shares as of last trading date – April 13, 2022 was ₱3.34.

**(2) Holders**

As of December 31, 2022, there are a total of 3,109 shareholders of RFM common stock. Filipinos owned 2,647,379,365 common shares or 78.567% while the foreigners owned 722,169,993 common shares or 21.432%.

Below are the top 20 stockholders of common shares as of December 31, 2022:

| **Name** | **No. of shares held** | **% to Total** |
|---|---|---|
| 1. Triple Eight Holdings, Inc. | 745,157,196 | 22.11 |
| 2. PCD Nominee Corporation (Foreign) | 721,763,854 | 21.42 |
| 3. Horizons Realty, Inc. | 650,139,738 | 19.29 |
| 4. BJS Development Corporation | 311,210,184 | 9.24 |
| 5. PCD Nominee Corporation (Filipino) | 281,696,056 | 8.36 |
| 6. RPMC Resources, Inc. | 201,982,966 | 5.99 |
| 7. FEATI University | 112,011,350 | 3.32 |
| 8. Chilco Holdings, Inc. | 72,748,950 | 2.16 |

| | | |
|---|---|---|
| 9. Concepcion Industries, Inc | 71,384,424 | 2.12 |
| 10. S & A Industrial Corporation | 59,474,114 | 1.77 |
| 11. Select Two Incorporated | 34,583,918 | 1.03 |
| 12. Republic Commodities Corporation | 33,115,616 | 0.98 |
| 13. Macric Incorporated | 23,302,412 | 0.69 |
| 14. Lace Express Inc. | 23,278,716 | 0.69 |
| 15. Monaco Express Corporation | 23,278,552 | 0.69 |
| 16. Sole Luna, Inc. | 22,305,308 | 0.66 |
| 17. Foresight Realty Development Corporation | 21,275,440 | 0.63 |
| 18. Select Two Incorporated | 14,915,694 | 0.44 |
| 19. Hyland Realty Corporation | 13,979,764 | 0.41 |
| 20. Argon Group Holdings | 11,919,518 | 0.35 |

There are no securities to be issued in connection with an acquisition, business combination or other reorganization.

**(3) Dividends**

(a) Dividend per Share

On February 5, 2020, the BOD approved the declaration of ₱0.106 cash dividend per share or a total of ₱366 million to its stockholders. The dividends were paid on March 17, 2020.

On July 29, 2020 the BOD approved the declaration of ₱0.1020 regular cash dividend per share or a total of ₱366 million to its stockholders. The dividends were paid on September 10, 2020.

On January 25, 2021, the BOD approved the declaration of ₱0.10387 cash dividend per share or a total of ₱350 million to its stockholders. The dividends were paid on March 8, 2021.

On June 30, 2021 the BOD approved the declaration of ₱0.1237 regular cash dividend per share or a total of ₱417 million to its stockholders. The dividends were paid on August 9, 2021.

On January 12, 2022, the BOD approved the declaration of ₱0.116936 cash dividend per share or a total of ₱394 million to its stockholders. The dividends were paid on January 26, 2022.

On June 27, 2022 the BOD approved the declaration of ₱0. 077335 regular cash dividend per share or a total of ₱260 million to its stockholders. The dividends were paid on August 4, 2022.

On September 1, 2022 the BOD approved the declaration of ₱0.059355 regular cash dividend per share or a total of ₱200 million to its stockholders. The dividends were paid on October 11, 2022.

(b.) Dividends Restriction

The Parent Company's retained earnings as of December 31, 2022 is restricted to the extent of the amount of the undistributed equity in net earnings of an associate included in its retained earnings amounting to ₱5,960 million. These will only be available for declaration as dividends when these are actually received.

The long-term loan agreements entered into by RFM Corporation with its creditors allows the Company to declare and pay cash dividends upon compliance with the required current ratio, debt-to-equity ratio and debt service coverage ratio.

**Item 6 – Management Discussion and Analysis of Financial Conditions and Results of Operations for Year 2022**

**Introduction**

This discussion summarizes the significant factors affecting the consolidated operating results and financial condition of RFM Corporation and its Subsidiaries for the period December 31, 2022. The following discussion should be read in conjunction with the attached audited consolidated financial statements of the Company as of December 31, 2022 and 2021, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2022. All necessary adjustments to present the Company's consolidated financial position as of December 31, 2022 and 2021 and the results of operations and cash flow for the years then ended have been made.

**Year ended December 31, 2022 vs. 2021**

**Management Report on Operations**

Food and Beverage Company RFM Corporation posted revenue of ₱19.39 billion equivalent to 15% growth compared to last year's revenue of ₱16.88 billion. Both Consumer and Institutional segments contributed to the group revenue growth at 10% and 29% respectively. Group net income for 2022 is at ₱1.07 billion. Lower income for the year as margins compressed as a result of higher input cost, such as wheat, milk, and sugar which RFM absorbed partly, as well as the bigger charge of electricity by RFM's power supplier.

**Financial Position**

***Analysis of Balance Sheet Accounts***

As of December 31, 2022, the Group's total assets increased from last year's ₱19.86 billion to ₱20.86 billion due to increase in inventories. The total liabilities increased from last year's ₱6.58 billion to ₱7.45 billion due to higher trade payables and availments of bank loans.

**Year ended December 31, 2021 vs. 2020**

**Management Report on Operations**

Food and Beverage Company RFM Corporation posted revenue of ₱16.88 billion which is 8% higher compared to last year's revenue of ₱15.70 billion. This was driven by Consumer segment posting 8% growth over last year. Group net income for 2021 is at ₱1.31 billion or a growth of 2% vs last year.

**Financial Position**

***Analysis of Balance Sheet Accounts***

As of December 31, 2021, the Group's total assets increased from last year's ₱19.00 billion to ₱19.86 billion due to financial assets at FVOCI amounting to about ₱3.55 billion. The total liabilities increased from last year's ₱6.43 billion to ₱6.58 billion.

**Key Performance Indicators**

For the full fiscal years 2022, 2021 & 2020 the Company's and majority-owned subsidiaries' top five (5) key performance indicators are as follows:

| *In Millions* | **December 2022** | December 2021 | December 2020 |
|---|---|---|---|
| Revenues | **19,386** | 16,880 | 15,701 |
| Operating Margin | **1,401** | 1,764 | 1,812 |
| Net Income | **1,069** | 1,309 | 1,288 |
| EBITDA | **1,936** | 2,388 | 2,369 |
| Current Ratio | **1.31** | 1.44 | 1.50 |

**(a) Revenue Growth**

These indicate external performance of the Company and its subsidiaries in relation to the movement of consumer demand and the competitors' action to the market behavior. These also express market acceptability and room for development and innovations. These are being monitored and compared as a basis for further study and development.

**(b) Operating Margin**

This shows the result after operating expenses have been deducted. Operating expenses are examined, checked and traced for major expenses. These are being analyzed and compared to budget, and previous years, to ensure prudence and discipline in spending behind marketing and selling activities.

**(c) Net Income**

This represents the outcome or results of operations. This measures the over-all performance of the team, the consequence of all the contributory factors affecting supply, demand, utilization and decisions.

**(d) EBITDA**

This measures the Company's ability to generate cash from operation by adding back non-cash expenses (i.e. depreciation and amortization expense) to earnings before interest and tax.

**(e) Current Ratio**

This determines the company's ability to meet its maturing obligations using its current resources. It indicates the possible tolerable shrinkage in current resources without threat to the claims of current creditors.

**Causes for Any Material Changes from Period to Period of FS, which shall include vertical and horizontal analyses of any material item**

Please refer to the discussions under Results of Operations and Financial Position for the year ended December 31, 2022 vs. 2021, year ended December 31, 2021 vs. 2020.

The Company is not aware of the following:

(i) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.

(ii) All material off-balance sheet transaction, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

**Seasonal Aspects that has Material Effect on the FS**

There is no material effect with the seasonal aspect of certain raw materials specifically wheat on the financial statements.

Audit and Audit Related Fees

For the years 2022, 2021, and 2020, the Company engaged the professional services of SGV. The Group incurred an aggregate audit fee of ₱2.5 million for 2022, excluding out-of-pocket expenses. The engagement involves the examination of the Company's financial statements in accordance with generally accepted auditing standards. It includes on a test basis review and evaluation of system, documentation, and procedures to ascertain that adequate internal controls are in place. Also, they provide updates on latest regulatory or compliance requirement with government agencies such as Securities and Exchange Commission and other government agencies.

The audit committee's approval policies and procedures for external auditors are:

1. Statutory audit of the company's annual financial statements

    a. The Audit Committee ensures that the services of the external auditor conform with the provision of the company's manual of corporate governance specifically articles 2.3.4.1; 2.3.4.3 and 2.3.4.4

    b. The Audit Committee makes an assessment of the quality of prior year audit work services, scope, and deliverables and makes a determination of the reasonableness of the audit fee based on the proposed audit plan for the current year.

    c. The Audit Committee approved the final audit plan and scope of audit presented by the external auditor before the conduct of audit. The final audit plan was already the output after the conclusion of the series of pre-audit planning with Management.

    d. The Audit Committee reports to the Board the approved audit plan.

2. For other services other than annual financial statements audit:

    a. The Audit Committee evaluates the necessity of the proposed services presented by Management taking into consideration the following:

        i. The effectiveness of company's internal control and risk management arrangement, systems and procedures, and management degree of compliance.

        ii. The effect and impact of new tax and accounting regulations and standards.

        iii. Availability of in-house technical expertise.

        iv. Cost benefit of the proposed undertaking.

    b. The Audit Committee approves and ensures that other services provided by the external auditor shall not be in conflict with the functions of the external auditor for the annual audit of its financial statements.

**Item 7 – Financial Statements**

The consolidated financial statements and schedules listed are filed as part of previously submitted form 17-A.

**Item 8 – Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

There is no event in the past five (5) years wherein the Company had any disagreement with regard to any matter relating to accounting principles or practices, financial statement disclosure or auditing scope or procedure.

The Company regularly adopts New Statement of Financial Accounting Standards (SFAS)/ International Accounting Standards (IAS) where applicable.

**PART III - CONTROL ON COMPENSATION AND INFORMATION**

**Item 9 – Directors and Executive Officers of the Issuer**

**(1) List of Directors, Including Independent Directors, and Executive Officers (as of 31 December 2022)**

| ***Name of Director/ Executive Officer*** | ***Position*** | ***Age*** | ***Term as Director*** |
|---|---|---|---|
| Jose S. Concepcion Jr. | Chairman Emeritus/Director | 91 | 39 |
| Jose Ma. A. Concepcion III | Chairman of the Board / President & CEO | 64 | 35 |
| Ernest Fritz Server | Vice Chairman of the Board | 79 | 33 |
| Joseph D. Server, Jr. | Director | 82 | 42 |
| John Marie A. Concepcion | Director/Managing Director & CEO, Ice Cream, and Marketing Adviser, Consumer Group | 60 | 34 |
| Ma.Victoria Herminia C. Young | Director/ SVP & GM, Consumer Group | 63 | 15 |
| Francisco A. Segovia | Director | 68 | 35 |
| Raissa Hechanova-Posadas<br>* served from 1998 up to June 2022 | Director | 62 | 24 |
| Jose Ma. Christian O. Concepcion IV | Director | 36 | 3 |
| Romeo L. Bernardo | Independent Director | 68 | 19 |
| Lilia R. Bautista | Independent Director | 87 | 15 |
| Felicisimo M. Nacino, Jr.<br>* served from June 2022 up to present as Independent Director | Independent Director | 70 | 24 |
| Enrique Oliver I. Rey-Matias | VP-Finance & Chief Finance Officer /Concurrent General Manager, Flour Group/Compliance Officer | 51 | NA |
| Atty. Mitchie Vanessa T. Magomnang | Corporate Secretary/ AVP & Head of Legal and Human Resources/ Risk Management Officer | 46 | NA |
| Philip V. Prieto | Assistant Treasurer | 64 | NA |
| Melchor B. Bacsa | VP & Head of Supply Chain, Consumer Group | 61 | NA |
| Adenawer P. Torres | VP for Sales | 55 | NA |
| Victor Patrick S. Gutierrez | VP & Head, Consumer Sales and Marketing | 42 | NA |
| Harry E. Alvarez | AVP & Head of Supply Chain - Logistics | 48 | NA |
| Stephen James O. Uy | AVP & Head of SBU, Flour Group | 32 | NA |
| Evangeline L. Caballa | AVP & Group Controller | 36 | NA |
| Maria Patrocinio V. Valdez | Head of Human Resources | 70 | NA |

As provided in the Company's amended Articles of Incorporation, eleven (11) directors were elected to its Board of Directors during the last Annual Stockholders' Meeting. The officers, on the other hand, were elected during the Organizational Meeting following the Annual Stockholders' Meeting, each to hold office until the corresponding meeting of the Board of Directors in the next year or until a successor shall have been qualified and elected or appointed.

The Company's Board of Directors has committees for Audit, Compensation, Executive and Corporate Governance. There are two (2) independent directors, one of whom is the Chairman of the Audit Committee and the other head of the Corporate Governance Committee. The following sets forth certain information as to the directors and executive officers of the Company as of December 31, 2021:

***Directors***

**Jose S. Concepcion, Jr.**
*91 years old*
*Filipino*

Born on 29 December 1931, has an Associate's degree in Business Administration from De La Salle University and a Bachelor's degree in Agriculture from Araneta University. He is currently an incumbent member of the Board of Directors and the Chairman Emeritus of RFM Corporation. He previously held the Chairman position in the Asean-Business Advisory Council – Philippines, and East-Asia Business Council – Philippines. He is the Founding Chairman of the National Citizens Movement for Free Elections (NAMFREL), Special Resource Person of UCPB CIIF Finance Development. He is the Chairman of the Board of Directors of Swift Foods, Inc., and Member of the Board of Trustees of TOSP Foundation, Inc. He was previously the Secretary of the Department of Trade and Industry, Chairman of the Board of Investments, member of the Central Bank Monetary Board from 1986-1991, Co-Chairman of Bishops-Businessmen Conference from 1991-1998, and a delegate to the 1971 Constitutional Convention. He served as director of the Corporation from years 1970 to 1985. He was first elected on 3 April 1997 as Chairman of the Board and served as such until June 29, 2021.

**Jose Ma. A. Concepcion III**
*64 years old*
*Filipino*

Born on 23 June 1958, has a Bachelor's degree in Business Management from Dela Salle University. He is currently the Chairman of the Board of Directors of RFM Corporation as well as its President and Chief Executive Officer. He first became a director of the Corporation on 30 October 1986, was elected President and Chief Executive Officer in 1989, and first elected as Chairman on 30 June 2021, replacing his father, Jose S. Concepcion, Jr. He previously held similar positions in the various subsidiaries (present and former) of the company such as RFM Equities, Inc., RFM Insurance Brokers, Inc., Rizal Lighterage Corporation, Cabuyao Logistics & Industrial Center, Inc., Interbake Commissary Corporation, Filipinas Water Bottling Co., Inc., and Invest Asia Corporation. He concurrently holds the position of Chairman of the Board of Unilever RFM Ice Cream, Inc. (URICI) and a Co-Chairman of Integrated Global Low-Temperature, (IGLO) Philippines, Inc., a cold-chain company. He is also a director of Concepcion Industries Inc., the largest air-conditioner and refrigerator manufacturer in the country. In 2016, he was appointed by the President of the Philippines as Presidential Consultant for Entrepreneurship, a position which he also previously held in 2005 until 2010. He was an awardee of the Ten Outstanding Young Men of the Philippines (TOYM) in 1995 and Time Global 100 List of Young Leaders for the New Millennium in 1994. He is associated with major business and industry and various socio-civic associations. He is the founding Trustee of the Philippine Center for Entrepreneurship – Go Negosyo. He also currently chairs the ASEAN Business Advisory Council (ABAC).

**Ernest Fritz Server**
*79 years old*
*Filipino*

Born on 08 July 1943, has a Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania. He is the Vice-Chairman of the Board of Directors of RFM Corporation. He is also a Vice-Chairman of Philtown Properties, Inc., and a Director of RFM Equities, Inc. He is the President of Superior Las Pinas, Inc., Capital Mediaworks, Inc., and Vicinetum Holdings, Inc. He is also a trustee of TOSP Foundation, Inc. He is a member of the Board of Directors of BJS Development Corporation, Phil. Stratbase Consultancy, Inc., ABS-CBN Convergence, Inc., Seacage Industries, Inc., and 818 Aqua Farms, Inc. and Chairman of Westview Properties, Inc. and Arrakis Holding, Inc. He served as President of Philam Fund, Philippine Home Cable Holdings, Inc., Trans-Pacific Properties, Inc. and United Housing Corporation. He served as Chairman of Intercity Properties, Inc. and Vice Chairman of Commercial Bank of Manila, Consumer Bank, Cosmos Bottling, Co. He also served as a Director of Farmingtown, Rizal Lighterage Corporation, RFM Insurance Brokers, Inc. and Psi Technologies. He first became a director of the Corporation on 27 October 1988. He is a member of both the Executive Committee and Compensation Committee of RFM Corporation.

**Joseph D. Server Jr.**
*82 years old*
*Filipino*

Born on 08 October 1940, has a Bachelor of Arts degree in Economics from the Ateneo de Manila University and a Master's degree in Business Administration from the Wharton School of the University of Pennsylvania in the United States. He is the Chairman of the Board of BJS Development Corporation and the President of JSA & Associates, Inc. and Powerhouse Holdings, Inc. He first became a director of the Corporation on 30 August 1979. He is presently a member of the Audit Committee and Corporate Governance Committee of RFM Corporation.

**John Marie A. Concepcion**
*60 years old*
*Filipino*

Born on 13 January 1962, has a degree in Business Administration from Seattle University, Washington, U.S.A. He is the Chief Executive Officer & Managing Director of Unilever RFM Ice Cream, Inc. He is also a director and treasurer of Selecta Walls Land Corporation (SWLC). He became a director of the RFM Corporation on 29 October 1987. He also concurrently serves as the Marketing Adviser for the Consumer of Group of RFM Corporation.

**Ma. Victoria Herminia C. Young**
*63 years old*
*Filipino*

Born on 4 August 1959, has a Bachelor of Science Degree in Management and Marketing from Assumption College. She is currently Senior Vice-President and General Manager of Consumer Group handling the R&D, Logistics, White King Division, Milk & Juice Division, Sales Division, Operations Division, Exports Division and subsidiary company Bevco Philippines. She was the President of Interbake Commissary Corporation, a former subsidiary of the Corporation. She is a Trustee and President of TOSP Foundation, Inc. She is also a Trustee of Soul Mission Org. and Ronald McDonald House of Charities. She was appointed as Senior Vice President for the Consumer Group of the Corporation in January 2014.

**Francisco A. Segovia**
*68 years old*
*Filipino*

Born on 17 January 1954, has a Bachelor of Science degree in Business Management from the Ateneo De Manila University. He is President of Segovia & Corporation, Inc., Fritz International Philippines, Inc., Horseworld, Inc., Big A. Aviation Corporation, Intellicon, Inc., Regina Realty/Chilco Holdings, Araneta Institute of Agriculture, Republic Dynamics Corporation and Republic Consolidated Corporation. He is a director of RFM Equities, Inc., and Philtown Properties, Inc. He first became a director of the Corporation on 30 October 1986.

**Raissa Hechanova-Posadas**
*62 years old*
*Filipino*

Born on 16 April 1960, has a Master's degree in Business Administration from Imede (now IMD) Lausanne, Switzerland and a degree in Bachelor of Arts major in Applied Economics from De La Salle University. She joined the Corporation as director in April 1997, replacing her father, Mr. Rafael G. Hechanova, former Chairman of the Board of Directors of RFM Corporation. She was a member of the Compensation Committee and ceased to be a director in June 2022.

**Felicisimo M. Nacino, Jr.**
*70 years old*
*Filipino*

Born on 09 May 1952, has a Bachelor of Arts degree in Economics and a Master's degree in Business Administration, both from the University of the Philippines. He previously served as the Executive Vice-President & Chief Operating Officer of the Corporation and currently serves as Director of RFM Corporation, Unilever RFM Ice Cream Inc., and other companies in the RFM Group. He first became a director of RFM Corporation on 30 March 1995 and served until June 2020. He was then re-elected as an independent director in 2022. He is currently a member of the Audit Committee of the Corporation.

**Jose Ma Christian O. Concepcion IV**
*36 years old*
*Filipino*

Born on 13 January 1987, he finished high school at La Salle Greenhills and acquired his college degree in Business Entrepreneurship from Entrepreneurs School of Asia, otherwise known as Thames International. He is the founder and owner of Ono Poke Food Shop. He is also an incumbent director of Kettle Foods Corporation. He first became a director of RFM Corporation on 29 July 2020.

**Romeo L. Bernardo**
*68 years old*
*Filipino*

Born on 5 September 1954, Mr. Bernardo received his Bachelor of Science degree in Business Economics from the University of the Philippines (Magna Cum Laude) and a Master's Degree in Development Economics from Williams College, Mass. USA. He has had a varied career in public institutions before he co-founded LBT (with former Energy Secretary Del Lazaro and corporate lawyer Helen Tiu) in 1997. His public sector work spans teaching finance at the state university, a career in the Department of Finance rising to the Undersecretary post , and working in multilateral institutions such as the IMF and the World Bank, based in Washington DC, as well as the ADB in Manila. Presently, he provides business advice as board director in leading listed Philippine companies such as ALFM family of funds (Chairman), Bank of the

Philippine Islands, Globe Telecom, Aboitiz Power, National Reinsurance Corporation of the Philippines, Philippine Investment Management (PHINMA) Inc., and Institute of Development and Econometric Analysis, Inc. He also does/has done policy advisory for multilateral and bilateral institutions and he Philippine government in public finance, capital markets, public-private partnership, pension reform, economic governance. He is the lead Philippine partner/advisor to Global Source Partners, a global network of independent analysts. He first became an independent director of RFM Corporation on 25 September 2002. He is presently the Chairman of the Compensation Committee and Corporate Governance Committee of RFM Corporation. He is also a member of the Audit and Executive Committees of the Corporation.

**Lilia R. Bautista**
*87 years old*
*Filipino*

Born on 16 August 1935, is an Independent Director of the Company since September 2006. She is also an independent director of Transnational Diversified Group and a professional lecturer at the Philippine Judicial Academy. Recently, she was appointed as Dean of the College of Law of Jose Rizal University. She previously held several positions including as a Member of the Appellate Body of the World Trade Organization, Chairman, Securities and Exchange Commission, Ex-Officio Member, Anti-Money Laundering Council, Senior DTI Undersecretary & Special Trade Negotiator and subsequently acting DTI Secretary. Ex-officio member of the Monetary Board, Chairman of the Board of Investments, National Development Company and other DTI agencies. She was appointed Ambassador to the United Nations and other international agencies in Geneva, Switzerland. She holds an L.L.B., University of the Philippines, LLM, University of Michigan (Dewitt Fellow), M.B.A., University of the Philippines, and attended special courses in corporate finance and reorganization, New York University and Investment negotiation course, Georgetown University. She is presently the Chairwoman of the Audit Committee of RFM Corporation as well as member of the Corporate Governance Committee and Compensation Committee.

***Executive Officers***

Management is comprised of owner-managers and professional managers. Mr. Jose Maria A. Concepcion III is the President and Chief Executive Officer of RFM Corporation, and is also a major shareholder. He joined the Company in 1980 as a route salesman, and occupied positions in sales and marketing before he became President and Chief Executive Officer in 1989.

**Enrique Oliver I. Rey-Matias**
*51 years old*
*Filipino*

Born on 26 December 1971, has a Bachelor of Science degree major in Business Economics from the U.P School of Economics magna cum laude and a Master's degree in Business Management from the Asian Institute of Management. Prior to joining RFM, he worked for eight years at the Philippine as well as Southeast and South Asian operations of Liwayway Marketing Corporation (Oishi) as Vice President – Finance. He was appointed as Chief Finance Officer and Treasurer of the Corporation, effective November 2015. He also worked at the Bangko Sentral ng Pilipinas and at the Philippine Senate President's Office.

**Atty. Mitchie Vanessa T. Magomnang**
*46 years old*
*Filipino*

Born on 7 November 1976, has a Juris Doctor degree and graduated as *Class Salutatorian* in April 2006 from Mindanao State University Marawi City. She was admitted to the Philippine Bar in 2007. Prior to taking up law studies, she graduated *Cum Laude* from the same university in 1997 with the degree of Bachelor of Science in Accountancy. She is also a Certified Public Accountant. She was the Head of Legal of Philtown

Properties, Inc., Attorney II at the Bureau of Internal Revenue and Chief-of-Staff in the House of Representatives before joining the Company in 2016 as Legal Counsel.

**Philip V. Prieto**

*64 years old*
*Filipino*

Born on 20 August 1958, has a Bachelor's of Arts degree from the University of San Francisco. He is currently the Assistant Treasurer of RFM Corporation. He joined the Corporation in 1995 as the Purchasing Manager of Cosmos Bottling Corporation when this was still owned by RFM Corporation. He was also the General Manager of Invest Asia Corporation.

**Melchor B. Bacsa**
*61 years old*
*Filipino*

Born on 6 January 1961, a Licensed Chemical Engineer, has a Bachelor of Science Degree in Chemical Engineering from the Adamson University. Prior to joining RFM Corporation, he was the Director for Operations, Branded Consumer Foods Division from 2008 to 2010 at Universal Robina Corporation, where he started his career in 1983. He also held top positions in professional organizations namely Production Management Association of the Philippines (PROMAP) and First Cavite Industrial Estate Association (FCIEA). He joined the company in January 2011 as Vice President and Head of Operations and Exports Division.

**Adenawer P. Torres**
*55 years old*
*Filipino*

Born on June 27, 1967, has a Bachelor of Science in Commerce Degree, Major in Business Management from the University of the Assumption, Pampanga. He has 29 years of extensive experience in Sales, Trade Marketing and Product Distribution in various industries like consumer goods, pharmaceuticals, automotive oil and banking. Prior to joining RFM Corporation for the first time back in 2008, he was the National Key Accounts Manager/ Modern Trade Head from 2005 to 2008 at General Mills Foods, Inc, where he was instrumental in driving the growth in the local market of popular international brands Pillsbury, Green Giant and Betty Crocker. He previously served as a Sales Consultant of Kettle Foods Corporation before rejoining RFM Corporation as Vice President for Sales.

**Victor Patrick S. Gutierrez**
*42 years old*
*Filipino*

Born on 29 April 1980, has a Bachelor of Science degree in Management major in Communications Technology Management from Ateneo de Manila University. He joined RFM as a consultant for Sales and Marketing in 2017 until 2019. He rejoined the company in July 2021 from PT Mayora where he was Business Unit Head in the Philippines for biscuits and confectionery. He was the Vice-President, Dairy and Coffee – Marketing and Product Development of San Miguel Purefoods from May 2015 to June 2017. He also worked at Unilever Philippines and Monde Nissin Corporation.

**Harry E. Alvarez Jr.**
*48 years old*
*Filipino*

Born on 5 December 1974, has a Bachelor Degree in Industrial Engineering from Mapua Institute of Technology. He has 13 years of well-rounded experience in Planning, Logistics and Total Supply Chain Operations from top food manufacturing companies in the Philippines. Prior to joining RFM Corporation, he was the Supply Chain Manager of San Miguel Mills Incorporated for 4 years. He joined RFM in June 2006 as Supply Chain Manager – ICC Division.

**Stephen James O. Uy**

*32 years old*
*Filipino*

Born on 3 January 1990, has a Bachelor of Science degree in Management major in Communications Technology Management at the Ateneo De Manila University in October 2011. Prior to joining the Corporation, he was a Trading Analyst at All Asian Countertrade from 2012 to 2015. He joined RFM in March 2015 as Senior Management Trainee of Flour Group and was appointed as Head of Materials Management and Sales in April 2016.

**Evangeline L. Caballa**
*36 years old*
*Filipino*

Born on 4 July 1986, has a Bachelor of Science in Accountancy at the University of Santo Tomas in May 2007, she passed her CPA licensure in the same year. Prior to joining the Corporation, she was an Analyst at Accenture. She first joined RFM as General Accounting Supervisor in 2009 up to 2013. She moved to Chevron Holding Inc. in 2013 as its Sr. Trade Accountant. She rejoined RFM in 2014 as Corporate Accounting Manager and was promoted to Group Controller in September 2015.

**Maria Patrocinio V. Valdez**
*70 years old*
*Filipino*

Born on 14 November 1952, has a Bachelor of Arts Degree in Business Administration from Maryknoll College. She joined RFM Corporation in 1982 as Personnel Supervisor then became Manager for Compensation Planning and Administration and eventually Assistant Vice-President for Corporate Compensation and Benefits. In 2005, she became a consultant for Executive Compensation and also to the RFM Compensation Committee. Effective 2015, she became the Head of Human Resources Department.

### (2) Significant Employees

There is no person other than the executive officers, who are expected by the Corporation to make significant contribution to the business.

## (3) Family Relationships

Jose S. Concepcion Jr. is the father of Jose Ma. A. Concepcion III, John Marie A. Concepcion, and Ma. Victoria Herminia C. Young while Francisco A. Segovia is his nephew. Jose Ma. A. Concepcion III is the father of Jose Ma. Christian O. Concepcion IV. Ernest Fritz Server and Joseph Server are brothers.

**(4) Involvement in Certain Legal Proceedings**

To the best knowledge and information of the Corporation, the nominees for Director, its present Board of Directors and its Executive Officers are not, presently or during the last five years, involved or have been involved in any legal proceeding involving themselves and/or their properties before any court of law or administrative body in and out of the country that are material to their ability and/or integrity. Likewise, the said persons have not been convicted by final judgment of any offense punishable by the laws of the Republic of the Philippines or the laws of any other country.

**Item 10 – Executive Compensation**

Information as to the aggregate compensation paid or accrued during the last two fiscal years, and the estimated amount to be paid in the ensuing fiscal year to the Company's Chief Executive Officer and four other most highly compensated executive officers follows:

*(In Million Pesos)*

| Name | Position | Year | Total Compensation | Compensation | Bonus & Others |
|---|---|---|---|---|---|
| Jose Ma. A. Concepcion III<br>John Marie Concepcion<br>Ma.Victoria Herminia C. Young<br>Enrique Oliver I. Rey-Matias<br>Victor Patrick S. Gutierrez | President & CEO<br>Managing Director – Ice Cream<br>SVP & GM – Consumer Group<br>VP & CFO<br>VP & Head, Sales & Marketing | 2023 | ₱80.43 | ₱58.98 | ₱21.45 |
| All officers and directors as a group unnamed | | 2023 | ₱17.51 | ₱14.99 | ₱2.52 |

*(In Million Pesos)*

| Name | Position | Year | Total Compensation | Compensation | Bonus & Others |
|---|---|---|---|---|---|
| Jose Ma. A. Concepcion III<br>John Marie Concepcion<br>Ma.Victoria Herminia C. Young<br>Enrique Oliver I. Rey-Matias<br>Victor Patrick S. Gutierrez | President & CEO<br>Managing Director – Ice Cream<br>SVP & GM – Consumer Group<br>VP & CFO<br>VP & Head, Sales & Marketing | 2022 | ₱76.60 | ₱56.17 | ₱20.43 |
| All officers and directors as a group unnamed | | 2022 | ₱16.68 | ₱14.28 | ₱2.40 |

*(In Million Pesos)*

| Name | Position | Year | Total Compensation | Compensation | Bonus & Others |
|---|---|---|---|---|---|
| Jose Ma. A. Concepcion III<br>John Marie Concepcion<br>Ma.Victoria Herminia C. Young<br>Enrique Oliver I. Rey-Matias<br>Victor Patrick S. Gutierrez | President & CEO<br>Managing Director – Ice Cream<br>SVP & GM – Consumer Group<br>VP & CFO<br>VP & Head, Sales & Marketing | 2021 | ₱62.04 | ₱49.93 | ₱12.11 |
| All officers and directors as a group unnamed | | 2021 | ₱19.74 | ₱14.62 | ₱5.12 |

**Compensation of Directors and Officers**

(a) Standard Arrangement.

The Board of Directors and members of the Compensation, Corporate Governance and Audit Committees are entitled to a per diem of Ten Thousand (Php10,000.00) for every meeting, except that the Chairman of the Compensation Committee and Corporate Governance Committee are entitled to a per diem amounting to Twenty Thousand (Php20,000.00) each. Additionally, the Chairman of the Audit Committee is entitled to a remuneration of Fifty Thousand Pesos (Php50,000.00) a month.

(b) Other Arrangement

There is no director providing any service or other arrangements for a fee, to the Company, other than those disclosed herein.

**Employment Contracts**

The registrant's executive officers are entitled to transportation and other benefits, bonus scheme, and retirement plan.

1. Transportation Benefits
   a. An executive officer is assigned a vehicle which he may purchase, at market value, after six (6) years, or return the same to the Corporation in exchange for a replacement vehicle.
   b. All expenses related to the registration, comprehensive insurance, repairs and maintenance of the assigned vehicle are paid by the Corporation.
   c. Reimbursement of gasoline expenses up to a certain amount of liters per month.

2. Bonus Scheme
   Based on individual performance and attainment of the specific objectives of the Company's business plan, bonus is given in accordance with company policy.

3. Retirement Plan
   Availment of the retirement benefit is provided after the individual has rendered at least five (5) years of service with the Company at 25% of basic pay per year of service. The value increases by 5% per additional year of service up to a maximum of 125%.

4. Other Benefits
   a. Hospitalization Plan: A hospitalization plan is provided for the executive officers and his immediate dependents in accordance with company policy.
   b. Vacation Leave: 15 days per year, accumulated up to 30 days but not encashable.
   c. Sick Leave: 15 days per year, accumulated up to 45 days but not encashable.
   d. Executive Check-up: Once every four (4) years; SPEC 24 KSAT blood test every two (2) years.

**Warrants and Options Outstanding: Repricing**

There are no outstanding warrants or stock options held by the directors or executive officers. As such, there are no price or stock warrants or options that are adjusted or amended. There were no material transactions during the past three (3) years between the Corporation and its executive officers other than the regular employment agreements.

**Item 11 – Security Ownership of Certain Beneficial Owners and Management**

**(a) Security Ownership of Certain Record and Beneficial Owners**

As of December 31, 2022, the direct and indirect-beneficial owners in excess of 5% of the common shares of RFM Corporation are set forth in the table below.

| Title of Class | Name and address record/beneficial owner | Name of Beneficial Owner and relationship with Record Owner | Citizenship | Amount and nature of record/beneficial ownership (Shares) | Percent of Class |
|---|---|---|---|---|---|
| Common | Triple Eight Holdings, Inc. # 18 Gen. Capinpin St., San Antonio Village, Pasig City | Triple Eight Holdings, Inc. | Filipino | 745,157,196 "r" | 22.11 |

| | | | | | |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation<br>GF MKSE Bldg., Ayala Ave., Makati City (Foreign) | | Foreign | 721,763,854<br>"r" | 21.42 |
| Common | Horizons Realty, Inc.<br>RFM Corporate Center, Pioneer cor. Sheridan Sts., Mandaluyong | Horizons Realty, Inc. | Filipino | 650,139,738<br>"r" | 19.29 |
| Common | BJS Development Corporation<br>1869 P. Domingo Street Makati City | BJS Development Corp. | Filipino | 311,210,184<br>"r" | 9.24 |
| Common | PCD NOMINEE CORPORATION<br>GF MKSE Bldg., Ayala Ave., Makati City (FILIPINO | | Filipino | 281,696,056 | 8.36 |
| Common | RPMC RESOURCES INC.<br>FEATI UNIVERSITY BLDG., CARLOS PALANCA | RPMC RESOURCES INC. | Filipino | 201,982,966 | 5.99 |

List of person or persons acting together to direct the voting or disposition of the shares held by:

I. Horizons Realty, Inc.
1. Jose S. Concepcion, Jr.
2. Ma. Victoria A. Concepcion
3. Jose Ma. A. Concepcion III
4. Ma. Victoria Herminia C. Young
5. Luis Bernardo A. Concepcion
6. John Marie A. Concepcion
7. Ma. Lourdes Celine C. Lebron
8. Ma. Victoria Ana C. Monasterio
9. Mary Elizabeth C. Santos
10. Michelle Marie C. Reyes

II. Triple Eight Holdings Inc.
1. Jose Ma. A. Concepcion III
2. Marissa O. Concepcion
3. Ma. Luisa Margarita O. Concepcion
4. Jose Christian O. Concepcion IV
5. Margarita O. Villareal

III. BJS Development Corporation
1. Joseph Server, Jr.
2. Hanz Joseph Banzhaf
3. Ernest Fritz Server, Jr.
4. Christine Michelle Server
5. Anne Liesel S. Quital
6. Christopher Mark B. Server
7. Burton Joseph L. Server III
8. Ann Christine B. De Jesus
9. Sylvia Alexandra Banzhaf

IV. RPMC Resources, Inc.
1. Gloria M. Alberto
2. Francisco A. Segovia
3. Steven Cesar G. Virata
4. Jowina M. Segovia
5. Cesar F. Domingo
6. Tristan H. Macapanpan
7. Euney Marie J. Mata-Perez

**(b) Security Ownership of Management**

The direct and indirect shareholdings of directors and officers as of December 31, 2022 are as follows:

| Title of Class | Name and Address of Beneficial Owner | Position | Citizenship | Direct | Indirect | Total Direct & Indirect Shares | Percent of Class |
|---|---|---|---|---|---|---|---|
| Common | Jose S. Concepcion Jr. | Chairman Emeritus/Director | Filipino | 2,037,920 | 2,595,006 | 4,632,926 | 0.14 |
| Common | Jose Ma. A. Concepcion III | Chairman of the Board / President & CEO | Filipino | 11,671,886 | 755,313,896 | 766,985,782 | 22.76 |
| Common | John Marie A. Concepcion | Director/Managing Director & CEO, Ice Cream, and Marketing Adviser, Consumer Group | Filipino | 369,974 | 49,619,612 | 49,989,586 | 1.48 |
| Common | Ma. Victoria Herminia C. Young | Director/ SVP & GM, Consumer Group | Filipino" | 10 | 20,471,448 | 20,471,458 | 0.61 |
| Common | Ernest Fritz Server | Vice Chairman of the Board | Filipino | 564,834 | 205,064 | 769,898 | 0.02 |
| Common | Joseph Server, Jr. | Director | Filipino | 135,376 | 5,445,166 | 5,580,542 | 0.17 |
| Common | Jose Ma. Christian O. Concepcion IV | Director | Filipino" | 60,000 | 0 | 60,000 | 0 |
| Common | Francisco A. Segovia | Director | Filipino | 10 | 74,988,950 | 74,988,960 | 2.23 |
| Common | Romeo L. Bernardo | Independent Director | Filipino | 247 | 0 | 247 | 0 |
| Common | Lilia R. Bautista | Independent Director | Filipino | 2,000 | 0 | 2,000 | 0 |
| Common | Felicisimo M. Nacino, Jr. | Independent Director | Filipino | 2,000 | 0 | 2,000 | 0 |
| Common | Enrique Oliver I. Rey-Matias | VP-Finance & Chief Finance Officer/ Concurrent General Manager, Flour Group/Compliance Officer | Filipino | 150,000 | 0 | 150,000 | 0 |
| Common | Philip V. Prieto | Assistant Treasurer | Filipino | 122 | 0 | 122 | 0 |

**(b) Voting Trust Holders of 5% or More**

To the extent known to the Corporation, there are no persons holding more than 5% of the Corporation's stocks of a class under a voting trust or similar agreement.

**(c) Changes in Control**

No change in control of the Corporation has occurred since the beginning of its last fiscal year.

**Item 12 – Certain Relationships and Related Transactions**

The Company and its subsidiaries have no transaction involving a director, executive officer, or stockholder, nor members of their immediate family, who owns ten percent (10%) or more of total outstanding shares of the Company that are not in the ordinary course of the business of the Company.

The Parent Company is engaged in the manufacture and sale of flour, juices, milk, pasta and other flour products.

The Parent Company wholly or partially owns its subsidiaries where the basis of management control lies, as follows:

| | Percentage of Ownership | |
|---|---|---|
| | 2022 | 2021 |
| RFM Equities, Inc. (REI) | 100.00 | 100.00 |
| RFM Foods Philippines Corporation (RFM Foods)** | 100.00 | 100.00 |
| Southstar Bottled Water Company, Inc. (Southstar)** | 100.00 | 100.00 |
| Swift Tuna Corporation (Swift Tuna)** | 100.00 | 100.00 |
| Rizal Lighterage Corporation (RLC) | 93.51 | 93.51 |
| FWBC Holdings, Inc.** | 83.38 | 83.38 |
| Filipinas Water Bottling Company, Inc. (FWBC)** | 44.88 | 44.88 |
| RFM Canning and Marketing, Inc. (RFM Canning)** | 70.00 | 70.00 |
| WS Holdings, Inc. (WHI) | 60.00 | 60.00 |

***Dormant*

Significant related party transactions are as follows:

| | | **2022** | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|
| Related Parties | Transaction | **Amount** | **Outstanding receivable (payable)** | Amount | Outstanding receivable (payable) | Statement of Financial Position Account | Terms | Conditions |
| **Joint venture** | | | | | | | | |
| -do- | Service agreement | **–** | **–** | 55,667 | – | Advances from related parties (Note 14) | Non-interest-bearing, collectible in 60 days | -do- |
| -do- | -do- | **–** | **–** | 57,512 | – | Advances to related parties (Note 6) | -do- | -do- |
| -do- | Management service income | **21,747** | **10,902** | 18,106 | 6,766 | Trade Receivables (Note 6) | Non-interest bearing, collectible on demand but not later than 12 months | Unsecured, no impairment |
| -do- | Service fees | **₱–** | **(₱1,289)** | ₱– | (₱1,289) | Advances from related parties (Note 14) | Non-interest bearing, collectible on demand but not later than 12 months | Unsecured |
| **Entities under common major shareholder group** | | | | | | | | |
| Joey Pepperoni | Sales of goods | **–** | **1,396** | – | 1,396 | Trade Receivables (Note 6) | Non-interest bearing, collectible in 60 days | -do- |
| Philtown | Advances | **–** | **107,689** | – | 107,689 | Advances to related parties (Note 6) | Non-interest-bearing | Secured by a property of Philtown; due and demandable; partially impaired |
| -do- | Current Advances | **–** | **31,207** | – | 31,207 | Advances to related parties (Note 6) | -do- | Unsecured, no impairment |
| Kettle Foods Corporation | Purchase of goods | **496** | **1,489** | 284 | – | Trade Payables (Note 14) | Non-interest bearing, collectible in 60 days | -do- |
| Republic Consolidated Corporation | Purchase of services | **–** | **(22,542)** | – | (22,542) | Trade Payables (Note 14) | Non-interest bearing, collectible in 60 days | -do- |
| Others | Advances to related parties | **60** | **10,800** | – | 10,740 | Advances to related parties (Note 6) | Non-interest bearing | Unsecured, no impairment |
| -do- | Trade Receivables | **(53)** | **14,234** | – | 14,287 | Trade Receivables (Note 6) | Non-interest bearing | Unsecured, no impairment |
| -do- | Trade Payable | **(163)** | **(13,044)** | – | (12,881) | Trade Payables (Note 14) | Non-interest bearing | Unsecured |
| -do- | Advances from Related Parties | **(8)** | **(17,660)** | – | (17,652) | Advances from related parties (Note 14) | Non-interest bearing | Unsecured |

The Company has no material transactions (that may not be available from others) with other parties falling outside the definition of "related parties".

**Transactions with Promoters.**
None.

## PART V - EXHIBITS AND SCHEDULES

### Item 14 - Exhibits and Reports on SEC Form 17-C

**(a) Exhibits on SEC Form 17-C**

See accompanying Index to exhibits on pages 44.

The following exhibit is filed as a separate section of this report:

Subsidiaries of the Registrant are contained in the information on the Notes to Consolidated financial statements on pages 1 and 2 of filed Audited Financial Statement that is filed as part of this form 11-A.

**(b) Reports on SEC Form 17-C**

| Date Reported | Item no. | Meeting/ Date | Subject |
|---|---|---|---|
| 12 January 2022 | 09 | 12 January 2022 | Press Release - RFM Declares Cash Dividends of Php394M as 2021 Sales Grow 7% to Php16.8B |
| 12 January 2022 | 09 | 12 January 2022 | Declaration of Cash Dividend<br>Board approval of Cash Dividend |
| 24 January 2022 | 09 | 18 January 2022 | Certificate of Attendance of Directors in the Board Meetings of the Corporation for January 2022 to December 2022 |
| 5 April 2022 | 09 | 5 April 2022 | Notice and Agenda of 2022 Annual Stockholders' Meeting of RFM Corporation |
| 4 May 2022 | 09 | 4 May 2022 | Press Release - RFM First Quarter 2022 Sales Grow 17% as Income rises 4% to Php334B |
| 27 June 2022 | 09 | 27 June 2022 | Declaration of Cash Dividend<br>Board approval of Cash Dividend |
| 27 June 2022 | 09 | 27 June 2022 | Results of the 2022 Annual Stockholders' Meeting of RFM Corporation:<br><br>1. List of elected directors for 2022:<br><br>Jose S. Concepcion Jr.<br>Jose Ma. A. Concepcion III<br>Ernest Fritz Server<br>John Marie A. Concepcion<br>Ma. Victoria Herminia C. Young<br>Jose Ma. Christian O. Concepcion IV<br>Francisco A. Segovia<br>Joseph Server Jr.<br>Lilia R. Bautista as Independent Director |

| | | | |
|---|---|---|---|
| | | | Romeo L. Bernardo as Independent Director<br>Felicisimo M. Nacino, Jr. as Independent Director<br><br>External Auditor: The appointment of RFM Corporation's External Auditor was delegated to the Board of Directors. |
| 27 June 2022 | 09 | 27 June 2022 | Results of the 2022 Organizational Meeting of RFM Corporation:<br><br>1. List of elected officers for 2022:<br><br>Jose S. Concepcion Jr. – Chairman Emeritus<br>Jose Ma. A. Concepcion III – Chairman of the Board / President & Chief Executive Officer<br>Ernest Fritz Server – Vice Chairman of the Board<br>John Marie A. Concepcion – Managing Director & CEO, Ice Cream, Marketing Adviser and Consumer Group<br>Ma. Victoria Herminia C. Young – SVP & General Manager, Consumer Group<br>Enrique Oliver I. Rey-Matias – VP & CFO/ Concurrent General Manager, Flour Group/Compliance Office<br>Melchor B. Bacsa – VP & Head of Supply Chain, Consumer Group<br>Philip V. Prieto – Assistant Treasurer<br>Maria Patrocinio V. Valdez – Head of Human Resources<br>Atty. Mitchie Vanessa T. Magomnang – AVP & Head Legal & Human Resources/ Corporate Secretary/ Risk Management Officer<br>Adenawer P. Torres – VP Sales<br>Stephen James O. Uy – AVP & Head of SBU, Flour Group<br>Evangeline L. Caballa – AVP & Group Controller<br>Victor Patrick S. Gutierrez – VP & Head, Consumer Sales and Marketing<br>Harry E. Alvarez – AVP & Head of Supply Chain, Logistics<br>Filomena S. Hopilos – Data Protection Officer<br><br>2. In Organizational Meeting, the following were appointed:<br><br>AUDIT<br><br>Chairperson : Lilia R. Bautista<br>Member : Joseph D. Server, Jr.<br>Romeo L. Bernardo<br>Felicisimo M. Nacino, Jr. |

| | | | |
|---|---|---|---|
| | | | COMPENSATION<br><br>Chairperson: Romeo L. Bernardo<br>Member : Ernest Fritz Server<br>Lilia R. Bautista<br><br>EXECUTIVE<br><br>Chairperson: Jose Ma. A. Concepcion III<br>Member : Ernest Fritz Server<br>Romeo L. Bernardo<br><br>CORPORATE GOVERNANCE<br><br>Chairperson: Romeo L. Bernardo<br>Member : Lilia R. Bautista<br>Joseph D. Server, Jr. |
| 1 September 2022 | 09 | 1 September 2022 | Press Release - "RFM Approves Php1.2B Capex to Grow Milk and Other Fast-Growing Consumer and Institutional Businesses |
| 1 September 2022 | 09 | 1 September 2022 | Declaration of Cash Dividend<br>Board approval of Cash Dividend |

# COVER SHEET

**for**

## AUDITED FINANCIAL STATEMENTS

SEC Registration Number

| 0 | 0 | 0 | 0 | 0 | 0 | 1 | 2 | 9 | 9 | 8 |
|---|---|---|---|---|---|---|---|---|---|---|

**COMPANY NAME**

RFM CORPORATION AND SUBSIDIARIES

**PRINCIPAL OFFICE** *( No. / Street / Barangay / City / Town / Province )*

RFM CORPORATE CENTER, PIONEER CORNER SHERIDAN STREETS, MANDALUYONG CITY

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| AAFS | SEC | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number | Mobile Number |
|---|---|---|
| rfmcorporation.official@rfm.com.ph | (02) 8631-8101 | N/A |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 3,109 | 6/30 | December 31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Enrique Oliver I. Rey-Matias | eoirey-matias@rfm.com.ph | (02) 8631-8101 | N/A |

**CONTACT PERSON's ADDRESS**

RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City

***NOTE 1****. In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2****. All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

SGV
Building a better working world

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1226 Makati City
Philippines

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Fax: (632) 8819 0872
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# INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
RFM Corporation
RFM Corporate Center
Pioneer corner Sheridan Streets
Mandaluyong City

## Opinion

We have audited the consolidated financial statements of RFM Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2022 and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2022 in accordance with the financial reporting framework as described in Note 2 to the consolidated financial statements.

## Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

***Impairment testing of trademark with indefinite useful life and goodwill***

Under Philippine Financial Reporting Standards, the Group is required to annually test the amounts of Royal trademark with indefinite useful life and goodwill attributable to the investment in Unilever-RFM Ice Cream, Inc. for impairment. As of December 31, 2022, the Group's trademark with indefinite useful life and goodwill amounted to ₱2,271.50 million which is significant to the consolidated financial statements. In addition, management's impairment assessment process requires significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic, specifically the discount rate, revenue growth rate, royalty savings rate, budgeted brand support and projected operating expenses and maintenance capital expenditures.

The Group's disclosures about trademark with indefinite useful life and goodwill are included in Note 13 to the consolidated financial statements.

*Audit Response*

We obtained an understanding of the Group's impairment assessment process and relevant controls. We evaluated the methodologies and the assumptions used. These assumptions include discount rate, revenue growth rate, royalty savings rate, budgeted brand support and projected operating expenses and maintenance capital expenditures. We compared the assumptions used such as the discount rate, revenue growth rate, royalty savings rate, budgeted brand support and projected operating expenses and maintenance capital expenditures against historical performance of Unilever-RFM Ice Cream, Inc. and of the products under the Royal brand, taking into consideration the impact associated with the coronavirus pandemic. We involved our internal specialist in evaluating the parameters used in the determination of the discount rate against market data. We also compared the revenue growth rate and the royalty savings rate against relevant published market information. We reviewed the Group's disclosures about those assumptions to which the outcome of the impairment tests are most sensitive; specifically those that have the most significant effect on the determination of the recoverable amounts of the trademark with indefinite useful life and goodwill.

***Accounting for the investment in Unilever-RFM Ice Cream, Inc.***

The Group has 50% ownership in Unilever-RFM Ice Cream, Inc. as of December 31, 2022. This investment is accounted for using the proportionate consolidation method as allowed by the Philippine Securities and Exchange Commission. This is a key audit matter because Unilever-RFM Ice Cream, Inc. contributed significantly to the consolidated assets, consolidated liabilities, consolidated revenues and consolidated net income of the Group as of and for the year ended December 31, 2022.

The Group's disclosures about its investment in Unilever-RFM Ice Cream, Inc. are included in Note 11 to the consolidated financial statements.



*Audit Response*

We sent instructions to the statutory auditors of Unilever-RFM Ice Cream, Inc. to perform an audit on the financial information of Unilever-RFM Ice Cream, Inc. for the purpose of the Group's consolidated financial statements. These instructions cover their scope of work, risk assessment procedures, audit strategy and reporting requirements. We discussed with Unilever-RFM Ice Cream, Inc.'s statutory auditors about their key audit areas, planning and execution of audit procedures, significant areas of estimation and judgment, taking into consideration the impact associated with the coronavirus pandemic, and results of their work, for the year ended December 31, 2022. We reviewed the statutory auditors' working papers and obtained relevant conclusion statements related to their audit procedures.

We obtained the financial information of Unilever-RFM Ice Cream, Inc. from its statutory auditors and recomputed the Group's proportionate share in the assets, liabilities and net income of Unilever-RFM Ice Cream, Inc. as of and for the year ended December 31, 2022. We reviewed the accounting policies of Unilever-RFM Ice Cream, Inc. and considered any differences noted in our review of consolidation adjustments with regards to the Group's proportionate share in the assets, liabilities and net income of Unilever-RFM Ice Cream, Inc. We also reviewed the Group's disclosures with respect to its investment in Unilever-RFM Ice Cream, Inc.

**Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2022 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the financial reporting framework as described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication

The engagement partner on the audit resulting in this independent auditor's report is Ma. Emilita L. Villanueva.

SYCIP GORRES VELAYO & CO.



Ma. Emilita L. Villanueva
Partner
CPA Certificate No. 95198
Tax Identification No. 176-158-478
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 95198-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-141-2021, November 10, 2021, valid until November 9, 2024
PTR No. 9566019, January 3, 2023, Makati City

March 31, 2023

## RFM CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**(Amounts in Thousands)**

| | December 31 | |
|---|---|---|
| | **2022** | 2021 |
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents (Note 5) | **₱3,504,649** | ₱2,055,784 |
| Receivables (Notes 6 and 21) | **1,781,199** | 1,773,432 |
| Inventories (Note 7) | **3,007,517** | 1,914,519 |
| Financial assets at fair value through other comprehensive income (FVOCI) (Note 9) | **299,759** | 2,376,264 |
| Other current assets (Note 8) | **201,566** | 134,959 |
| **Total Current Assets** | **8,794,690** | 8,254,958 |
| **Noncurrent Assets** | | |
| Financial assets at fair value through other comprehensive income (FVOCI) - net of current portion (Note 9) | **1,506,644** | 1,172,463 |
| Investments in joint venture and an associate (Note 10) | **143,446** | 147,541 |
| Property, plant and equipment (Note 12): | | |
| At appraised value | **3,552,339** | 3,552,339 |
| At cost | **4,149,516** | 4,207,965 |
| Intangible assets (Note 13) | **2,271,682** | 2,271,495 |
| Net retirement asset (Note 22) | **13,846** | – |
| Deferred income tax assets - net (Note 23) | **186,794** | 185,119 |
| Other noncurrent assets | **238,941** | 68,472 |
| **Total Noncurrent Assets** | **12,063,208** | 11,605,394 |
| **TOTAL ASSETS** | **₱20,857,898** | ₱19,860,352 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Bank loans (Note 15) | **₱1,000,000** | ₱600,000 |
| Accounts payable and other current liabilities (Notes 14 and 21) | **5,573,636** | 4,961,878 |
| Lease liabilities (Note 29) | **100,845** | 50,013 |
| Income tax payable | **35,622** | 114,361 |
| **Total Current Liabilities** | **6,710,103** | 5,726,252 |
| **Noncurrent Liabilities** | | |
| Net retirement obligation (Note 22) | **8,450** | 48,626 |
| Lease liabilities - net of current portion (Note 29) | **255,763** | 301,870 |
| Deferred income tax liabilities - net (Note 23) | **476,267** | 500,334 |
| **Total Noncurrent Liabilities** | **740,480** | 850,830 |
| **Total Liabilities** | **7,450,583** | 6,577,082 |

(Forward)

| | December 31 | |
|---|---|---|
| | **2022** | 2021 |
| **Equity Attributable to Equity Holders of the Parent Company** | | |
| Capital stock (Note 16) | **₱3,651,021** | ₱3,651,021 |
| Additional paid-in capital (Note 16) | **2,060,383** | 2,060,383 |
| Treasury stock (Note 16) | **(758,777)** | (758,777) |
| Other comprehensive income (Notes 9, 12 and 16) | **2,093,537** | 2,209,906 |
| Retained earnings (Note 16) | **6,378,488** | 6,138,014 |
| | **13,424,652** | 13,300,547 |
| **Non-controlling Interests** | **(17,337)** | (17,277) |
| **Total Equity** | **13,407,315** | 13,283,270 |
| **TOTAL LIABILITIES AND EQUITY** | **₱20,857,898** | ₱19,860,352 |

*See accompanying Notes to Consolidated Financial Statements.*

# RFM CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

**(Amounts in Thousands, Except Per Share Data)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| **REVENUE** (Notes 4 and 17) | | | |
| Manufacturing | **₱19,347,403** | ₱16,836,142 | ₱15,666,575 |
| Services and others | **38,248** | 43,584 | 34,331 |
| | **19,385,651** | 16,879,726 | 15,700,906 |
| **COST OF SALES AND SERVICES** (Note 17) | **(13,546,363)** | (10,939,398) | (9,978,386) |
| **GROSS PROFIT** | **5,839,288** | 5,940,328 | 5,722,520 |
| **OPERATING EXPENSES** | | | |
| Selling and marketing (Note 18) | **(3,195,083)** | (3,029,405) | (2,877,747) |
| General and administrative (Note 19) | **(1,289,193)** | (1,194,902) | (1,031,649) |
| **OTHER INCOME (CHARGES)** | | | |
| Interest income (Note 20) | **61,019** | 28,766 | 39,954 |
| Interest expense (Note 20) | **(52,956)** | (43,408) | (60,045) |
| Equity in net earnings of an associate (Note 10) | **12,425** | 12,261 | 12,223 |
| Other income - net | **25,388** | 50,539 | 7,217 |
| **INCOME BEFORE INCOME TAX** | **1,400,888** | 1,764,179 | 1,812,473 |
| **PROVISION FOR INCOME TAX** (Note 23) | | | |
| Current | **370,669** | 449,739 | 563,156 |
| Deferred | **(38,483)** | 5,233 | (38,333) |
| | **332,186** | 454,972 | 524,823 |
| **NET INCOME** | **₱1,068,702** | ₱1,309,207 | ₱1,287,650 |
| **Net income attributable to:** | | | |
| Equity holders of the Parent Company | **₱1,068,762** | ₱1,309,398 | ₱1,286,360 |
| Non-controlling interests | **(60)** | (191) | 1,290 |
| | **₱1,068,702** | ₱1,309,207 | ₱1,287,650 |
| **Basic/Diluted Earnings Per Share** (Note 25) | **₱0.32** | ₱0.39 | ₱0.38 |

*See accompanying Notes to Consolidated Financial Statements.*

# RFM CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| **NET INCOME** | **₱1,068,702** | ₱1,309,207 | ₱1,287,650 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | |
| *Items that will be reclassified to profit and loss:* | | | |
| Unrealized gain (loss) on financial assets at FVOCI (Note 9) | **(112,400)** | (20,184) | 4,306 |
| Income tax effect | **(3,969)** | 5,046 | (1,292) |
| Remeasurement to prior period balance related to the changes in tax rates due to CREATE Act (Note 23) | **–** | 215 | **–** |
| | **(116,369)** | (14,923) | 3,014 |
| *Items that will not be reclassified to profit and loss:* | | | |
| Remeasurement gain (loss) on defined benefit retirement plan (Note 22) | **35,089** | 67,420 | (19,480) |
| Income tax effect | **(8,772)** | (16,855) | 5,844 |
| Remeasurement to prior period balance related to the changes in tax rates due to CREATE Act (Note 23) | **–** | (8,574) | **–** |
| | **26,317** | 41,991 | (13,636) |
| Revaluation increment on land (Note 12) | **–** | – | 440,804 |
| Income tax effect | **–** | – | (132,241) |
| Remeasurement to prior period balance related to the changes in tax rates due to CREATE Act (Note 23) | **–** | 149,670 | **–** |
| | **–** | 149,670 | 308,563 |
| **TOTAL COMPREHENSIVE INCOME** | **₱978,650** | ₱1,485,945 | ₱1,585,591 |
| **Total comprehensive income (loss) attributable to:** | | | |
| Equity holders of the Parent Company | **₱978,710** | ₱1,486,136 | ₱1,584,301 |
| Non-controlling interests | **(60)** | (191) | 1,290 |
| | **₱978,650** | ₱1,485,945 | ₱1,585,591 |

*See accompanying Notes to Consolidated Financial Statements.*

# RFM CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

### (Amounts in Thousands)

| | **Equity Attributable to Equity Holders of the Parent Company** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Capital Stock** (Note 16) | **Additional Paid-in Capital** (Note 16) | **Treasury Stock** (Note 16) | **Equity Reserve** | **Unrealized Gain on Financial Assets at FVOCI** (Note 9) | **Revaluation Increment on Land** (Note 12) | **Retained Earnings** (Note 16) | **Subtotal** | **Non-controlling Interests** | **Total Equity** |
| As of January 1, 2022 | **₱3,651,021** | **₱2,060,383** | **(₱758,777)** | **(₱23,237)** | **(₱11,909)** | **₱2,245,052** | **₱6,138,014** | **₱13,300,547** | **(₱17,277)** | **₱13,283,270** |
| Net income for the period | **–** | **–** | **–** | **–** | **–** | **–** | **1,068,762** | **1,068,762** | **(60)** | **1,068,702** |
| Other comprehensive income | **–** | **–** | **–** | **–** | **(116,369)** | **–** | **26,317** | **(90,052)** | **–** | **(90,052)** |
| Total comprehensive income for the period | **–** | **–** | **–** | **–** | **(116,369)** | **–** | **1,095,079** | **978,710** | **(60)** | **978,650** |
| Cash dividends | **–** | **–** | **–** | **–** | **–** | **–** | **(854,605)** | **(854,605)** | **–** | **(854,605)** |
| As of December 31, 2022 | **₱3,651,021** | **₱2,060,383** | **(₱758,777)** | **(₱23,237)** | **(₱128,278)** | **₱2,245,052** | **₱6,378,488** | **₱13,424,652** | **(₱17,337)** | **₱13,407,315** |

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 16) | Additional Paid-in Capital (Note 16) | Treasury Stock (Note 16) | Equity Reserve | Unrealized Gain on Financial Assets at FVOCI (Note 9) | Revaluation Increment on Land (Note 12) | Retained Earnings (Note 16) | Subtotal | Non-controlling Interests | Total Equity |
| As of January 1, 2021 | ₱3,651,021 | ₱2,060,383 | (₱758,777) | (₱23,237) | ₱3,014 | ₱2,095,382 | ₱5,559,204 | ₱12,586,990 | (₱17,086) | ₱12,569,904 |
| Net income for the period | – | – | – | – | – | – | 1,309,398 | 1,309,398 | (191) | 1,309,207 |
| Other comprehensive income | – | – | – | – | (14,923) | 149,670 | 41,991 | 176,738 | – | 176,738 |
| Total comprehensive income for the period | – | – | – | – | (14,923) | 149,670 | 1,351,389 | 1,486,136 | (191) | 1,485,945 |
| Cash dividends | – | – | – | – | – | – | (772,579) | (772,579) | – | (772,579) |
| As of December 31, 2021 | ₱3,651,021 | ₱2,060,383 | (₱758,777) | (₱23,237) | (₱11,909) | ₱2,245,052 | ₱6,138,014 | ₱13,300,547 | (₱17,277) | ₱13,283,270 |

| | Equity Attributable to Equity Holders of the Parent Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Capital Stock (Note 16) | Additional Paid-in Capital (Note 16) | Treasury Stock (Note 16) | Equity Reserve | Unrealized Gain On Financial Assets at FVOCI (Note 9) | Revaluation Increment on Land (Note 12) | Retained Earnings (Note 16) | Subtotal | Non-controlling Interests | Total Equity |
| As of January 1, 2020 | ₱3,651,021 | ₱2,060,383 | (₱375,918) | (₱23,237) | ₱– | ₱1,789,684 | ₱5,026,575 | ₱12,128,508 | (₱18,376) | ₱12,110,132 |
| Net income for the period | – | – | – | – | – | – | 1,286,360 | 1,286,360 | 1,290 | 1,287,650 |
| Other comprehensive income | – | – | – | – | 3,014 | 308,563 | (13,636) | 297,941 | – | 297,941 |
| Total comprehensive income for the period | – | – | – | – | 3,014 | 308,563 | 1,272,724 | 1,584,301 | 1,290 | 1,585,591 |
| Transfer of portion of revaluation increment on property, plant and equipment realized through disposal (Note 12) | – | – | – | – | – | (2,865) | 2,865 | – | – | – |
| Cash dividends | – | – | – | – | – | – | (742,960) | (742,960) | – | (742,960) |
| Purchase of shares into treasury (Note 16) | – | – | (382,859) | – | – | – | – | (382,859) | – | (382,859) |
| As of December 31, 2020 | ₱3,651,021 | ₱2,060,383 | (₱758,777) | (₱23,237) | ₱3,014 | ₱2,095,382 | ₱5,559,204 | ₱12,586,990 | (₱17,086) | ₱12,569,904 |

*See accompanying Notes to Consolidated Financial Statements.*

## RFM CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(Amounts in Thousands)**

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income before income tax | **₱1,400,888** | ₱1,764,179 | ₱1,812,473 |
| Adjustments for: | | | |
| Depreciation and amortization (Notes 12, 13 and 20) | **531,891** | 582,023 | 556,498 |
| Interest expense (Note 20) | **52,956** | 43,408 | 60,045 |
| Unrealized foreign exchange loss (gain) - net | **30,582** | (12,498) | 21,471 |
| Loss (gain) on sale of: | | | |
| Financial assets at FVOCI (Note 9) | **609** | 53 | (404) |
| Property, plant and equipment (Note 12) | **(2,847)** | 10,495 | (2,718) |
| Provision for (reversal of) impairment loss on property, plant and equipment (Note 12) | **(1,506)** | 2,111 | 511 |
| Equity in net earnings of an associate (Note 10) | **(12,425)** | (12,261) | (12,223) |
| Retirement expense (Note 22) | **23,797** | 29,784 | 23,652 |
| Interest income (Note 20) | **(61,019)** | (28,766) | (39,954) |
| Operating income before working capital changes | **1,962,926** | 2,378,528 | 2,419,351 |
| Decrease (increase) in: | | | |
| Receivables | **(8,937)** | 72,085 | 245,431 |
| Inventories | **(1,092,998)** | 215,729 | (645,101) |
| Other current assets | **(6,249)** | 44,891 | (1,978) |
| Increase in: | | | |
| Accounts payable and other current liabilities | **608,644** | 428,241 | 372,536 |
| Net cash generated from operations | **1,463,386** | 3,139,474 | 2,390,239 |
| Income taxes paid including creditable withholding taxes | **(509,234)** | (423,857) | (482,403) |
| Retirement contributions including benefits paid out of Group's operating funds (Note 22) | **(42,730)** | (51,596) | (50,400) |
| Interest paid | **(51,845)** | (43,895) | (60,487) |
| Interest received | **62,189** | 22,598 | 27,852 |
| Net cash from operating activities | **921,766** | 2,642,724 | 1,824,801 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Acquisitions of other noncurrent assets | **(167,996)** | (1,082) | – |
| Cash receipts from deposits and other noncurrent assets | **–** | – | 9,567 |
| Acquisitions of: | | | |
| Property, plant and equipment (Note 12) | **(363,195)** | (333,671) | (519,850) |
| Computer software (Note 13) | **(204)** | – | – |
| Financial assets at FVOCI (Note 9) | **(1,756,305)** | (8,058,356) | (3,644,108) |
| Proceeds from maturity of: | | | |
| HTC investments | **–** | – | 85,000 |
| Financial assets at FVOCI | **2,867,000** | 5,950,084 | 1,204,000 |
| Short-term cash investments (Note 20) | **–** | 648,989 | 460 |
| Proceeds from sale of: | | | |
| Property and equipment | **3,148** | 633 | 10,066 |
| Investments in financial assets at FVOCI (Note 9) | **523,789** | 253,534 | 753,066 |
| Dividends received (Note 10) | **16,520** | 15,261 | 15,171 |
| Net cash from (used in) investing activities | **1,122,757** | (1,524,608) | (2,086,628) |

(Forward)

| | Years Ended December 31 | | |
|---|---|---|---|
| | **2022** | 2021 | 2020 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Payments of dividends | **(₱852,602)** | (₱770,995) | (₱728,242) |
| Bank loans (Note 15) | | | |
| Availments | **16,300,000** | 9,810,000 | 70,912,000 |
| Payments | **(15,900,000)** | (9,805,000) | (71,295,500) |
| Payment of principal portion of lease liabilities (Note 29) | **(112,474)** | (73,894) | (81,560) |
| Reacquisition of shares into treasury (Note 16) | – | – | (382,859) |
| Net cash used in financing activities | **(565,076)** | (839,889) | (1,576,161) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS** | **(30,582)** | 12,498 | (21,471) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **1,448,865** | 290,725 | (1,859,459) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | **2,055,784** | 1,765,059 | 3,624,518 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** (Note 5) | **₱3,504,649** | ₱2,055,784 | ₱1,765,059 |

*See accompanying Notes to Consolidated Financial Statements.*

## 1. Corporate Information and Authorization for the Issuance of the Consolidated Financial Statements

Corporate Information

RFM Corporation (the Parent Company) was incorporated on August 16, 1957 and registered with the Philippine Securities and Exchange Commission (SEC). On July 9, 2007, the SEC approved the extension of the Company's corporate life from August 22, 2007 to October 13, 2056. However, under the Revised Corporation Code of the Philippines, the Company shall have a perpetual corporate life. The Parent Company is a public company under Section 17.2 of the Securities Regulation Code (SRC) and its shares are listed on the Philippine Stock Exchange (PSE) since 1966. The Parent Company is mainly involved in the manufacturing, processing and selling of wheat, flour and flour products, pasta, milk, juices, margarine, and other food and beverage products. The Parent Company and its subsidiaries are collectively referred to herein as the Group. The principal office address of the Parent Company is RFM Corporate Center, Pioneer corner Sheridan Streets, Mandaluyong City.

Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements of RFM Corporation and its subsidiaries (the Group) as of December 31, 2022 and 2021 and for each of the three years ended December 31, 2022 were authorized for issuance by the Board of Directors (BOD) on March 31, 2023.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared using the historical cost basis, except for the Group's parcels of land, which are stated at appraised values, net retirement liability which is measured at present value of the defined benefit obligations less fair value of the plan assets and financial assets at FVOCI which are measured at fair values. The consolidated financial statements are presented in Philippine Peso (₱), which is the Parent Company and its subsidiaries' functional currency. All values are rounded off to the nearest thousand pesos (₱000), except for the number of shares or when otherwise indicated.

Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with the financial reporting framework as allowed by the SEC which represents Philippine Financial Reporting Standards (PFRSs) except PFRS 11, *Joint Arrangements*, with respect to the Parent Company's investment in Unilever RFM Ice Cream, Inc. (URICI) (see Note 11).

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022.

The consolidated subsidiaries, which are all incorporated in the Philippines, and the effective percentages of ownership as of December 31, 2022, 2021 and 2020 follow:

| Entity | Nature of Business | Percentage of ownership |
|---|---|---|
| RFM Equities, Inc. (REI) | Holding | 100.00 |
| RFM Foods Philippines Corporation (RFM Foods)* | Food retailer | 100.00 |
| Southstar Bottled Water Company, Inc. (Southstar)* | Bottled water business | 100.00 |
| Swift Tuna Corporation (Swift Tuna)* | Manufacturing | 100.00 |
| Rizal Lighterage Corporation (RLC) | Barging services | 91.62 |
| FWBC Holdings, Inc.* | Holding company | 83.38 |
| RFM Canning and Marketing, Inc. (RFM Canning)* | Canning services | 70.00 |
| WS Holdings, Inc. (WHI) | Holding company | 60.00 |
| Filipinas Water Bottling Company, Inc. (FWBC)* | Bottled water manufacturing | 44.88 |

**Dormant*

*Subsidiaries*
Subsidiaries are entities controlled by the Parent Company. The Parent Company controls an investee if, and only, if the Parent Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and,
- The ability to use its power over the investee to affect its returns.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events in similar circumstances. Adjustments where necessary are made to ensure consistency with the policies adopted by the Group.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognizes assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognized in the consolidated statement of income. Any investment retained is recognized at fair value.

*Non-controlling interests*
Non-controlling interests represent the portion of equity in a subsidiary not attributable, directly or indirectly, to the Parent Company. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interest are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within the equity section of consolidated statement of financial position and consolidated statement of changes in equity, separately from the equity attributable to equity holders of the Parent Company.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards effective as at January 1, 2022. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, adoption of these new standards did not have an impact on the consolidated financial statements of the Group.

- Amendments to PFRS 3, *Reference to the Conceptual Framework*

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations*, to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or Philippine-IFRIC 21, *Levies*, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16*, Property, Plant and Equipment: Proceeds before Intended Use*

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

- *Annual Improvements to PFRSs* 2018-2020 Cycle

  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

    The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to PFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*

    The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

    The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements to have a significant impact on its consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

  The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

  - Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and
  - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

  The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.



- Amendments to PAS 8, *Definition of Accounting Estimates*

  The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

  An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

  The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

  The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

  An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*

  The amendments clarify:

  - That only covenants with which an entity must comply on or before reporting date will affect a liability's classification as current or non-current.
  - That classification is unaffected by the likelihood that an entity will exercise its deferral right.
  - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively.

- Amendments to PFRS 16*, Lease Liability in a Sale and Leaseback*

  The amendments specify how a seller-lessee measures the lease liability arising in a sale and leaseback transaction in a way that it does not recognize any amount of the gain or loss that relates to the right of use retained.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2024 and must be applied retrospectively. Earlier adoption is permitted and that fact must be disclosed.



*Effective beginning on or after January 1, 2025*

- PFRS 17, *Insurance Contracts*

  PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

  On December 15, 2021, the Financial Reporting Standards Council (FRSC) amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the International Accounting Standards Board (IASB).

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the FRSC deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

**Summary of Significant Accounting Policies**

Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current or noncurrent classification.

An asset is current when it is:

a. Expected to be realized or intended to be sold or consumed in normal operating cycle;
b. Held primarily for the purpose of trading;
c. Expected to be realized within twelve months after the reporting period; or
d. Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies all other assets, including deferred taxes, as noncurrent

A liability is current when:

a. It is expected to be settled in normal operating cycle;
b. It is held primarily for the purpose of trading;
c. It is due to be settled within twelve months after the reporting period; or
d. There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities, including deferred taxes, as noncurrent.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.



At each reporting date, management analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed per the Group's accounting policies. For this analysis, management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and which are subject to an insignificant risk of changes in value.

Financial Instruments

*Date of recognition*

The Group recognizes a financial asset or a financial liability in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame by regulation or convention in the market place are recognized on the settlement date.

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group's financial assets and financial liabilities consist of amortized cost and other financial liabilities.

*Initial recognition and classification of financial instruments*

All financial instruments are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

*Financial Instruments - Classification and Subsequent Measurement*

The Group classifies and measures financial assets at FVTPL unless these are measured at FVOCI or at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing those financial assets.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade and other receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade and other receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under PFRS 15.

For a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

*Subsequent measurement of financial assets*
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost
- Financial assets at fair value through profit or loss (FVTPL)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (FVOCI)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition

As of December 31, 2022 and 2021, the Group's financial assets consist of financial assets at amortized cost and FVOCI with recycling of cumulative gains and losses.

*Financial assets at amortized cost*
This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method, less any impairment in value. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.
As of December 31, 2022 and 2021, the Group's financial assets at amortized cost include cash and cash equivalents, trade receivables, nontrade receivables, advances to related parties, and other receivables.

*Financial assets at FVOCI*
Financial assets at FVOCI include debt securities. After initial measurement, financial assets at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the consolidated statement of comprehensive income as 'Unrealized gain (loss) on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI is reported in the consolidated statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the consolidated statement of comprehensive income is recognized in the consolidated statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit losses' in the consolidated statement of income.

*Initial recognition and measurement of financial liabilities*
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs. As of December 31, 2022 and 2021, the Group's financial liabilities include accounts payable and other current liabilities (excluding payables to government agencies), bank loans and lease liabilities.

*Subsequent measurement*
For purposes of subsequent measurement, financial liabilities are classified in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and borrowings)

This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations. These financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the EIR method of amortization (or accretion) for any related premium, discount and any directly attributable transaction cost.

*Reclassifications of Financial Instruments*
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

*Impairment of Financial Assets*
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For cash and cash equivalents and short-term cash investments, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECLs on such instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from Standard and Poor's and Moody's to determine whether the debt instrument has significantly increased in credit risk and to estimate ECLs. The Group considers a debt investment security to have a low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

For trade receivables, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.



The key inputs in the model include the Group's definition of default and historical data of three years for the origination, maturity date and default date. The Group considers trade receivables in default when contractual payments are already past due for a certain number of days, which depends on the normal customer arrangements and business terms and varies across relevant business segment/sub-segment of the Group, ranging from 90 days to 360 days, except for certain circumstances when the reason for being past due is due to reconciliation with customers of payment records which are administrative in nature which may extend the definition of default. However, in certain cases, the Group may also consider trade receivables to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

For nontrade and other receivables and advances to related parties, ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are also recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

*Determining the stage for impairment*
At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Group's investment grade criteria are considered to have a low credit risk. The provision for credit losses for these financial assets is based on a 12-month ECL. The low credit risk exemption has been applied on debt investments that meet the investment grade criteria of the Group from the time of origination. An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-months ECL.

This policy is applicable to Group's financial assets except for trade receivables, for which the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date.

*Write-off policy*
The Group writes-off a financial asset, in whole or in part, when the asset is considered uncollectible, it has exhausted all practical recovery efforts and has concluded that it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

Financial assets written off may still be subject to enforcement activities under the Company's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in the consolidated statement of income.



Derecognition of Financial Assets and Financial Liabilities

*Financial asset*
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized when:

- the Group's right to receive cash flows from the asset has expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred or retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset or has entered into a "pass-through" arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial liabilities*
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of income.

Offsetting Financial Instruments
Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Inventories
Inventories are valued at the lower of cost and net realizable value (NRV). Costs incurred in bringing the product to its present location and condition are accounted for as follows:

| | | |
|---|---|---|
| Finished goods | - | determined using the moving average method; cost includes direct materials, direct labor and a proportion of manufacturing overhead costs based on normal operating capacity. |
| Goods in process | - | applicable allocation of fixed and variable overhead costs. |
| Raw materials, spare parts and supplies | - | purchase cost using the moving average method. |

NRV of finished goods and goods in process is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. For raw materials, NRV is the current replacement cost. In case of spare parts and supplies, NRV is the estimated realizable value of the inventories when disposed of at their condition at the reporting date. An allowance for inventory obsolescence is provided for slow-moving, obsolete, defective and damaged inventories based on physical inspection and management evaluation.

Other Current Assets
Other current assets include prepaid expenses, deposit on purchases of inventories, tax credits and input VAT.

*Prepaid expenses*. These are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses that are expected to be realized for no more than 12 months after the reporting date are classified as current assets; otherwise, these are classified as other noncurrent assets.

*Deposit on purchases of inventories.* This account comprises of advance payments to suppliers for payments on goods to be purchased in connection with the Group's operations. These are reclassified as part of inventory upon delivery of the related asset.

Property, Plant and Equipment
Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization, and any impairment in value. The initial cost of items of property, plant and equipment consists of its purchase price, including import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated statement of income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the item of property, plant and equipment.

Land is stated at fair value based on a valuation performed by an accredited independent appraiser. Any increase, as a result of revaluation of land, is credited to "Revaluation increment on land" account, net of deferred income tax effect, and presented under the equity section of the consolidated statement of financial position.

Revaluation of land is made periodically such that the carrying amount does not differ materially from that which would be determined using the fair value at the reporting date. For subsequent revaluations, any resulting increase in the assets' carrying amount as a result of the revaluation is credited to "Revaluation increment on land" account, net of deferred income tax effect, in the consolidated statement of comprehensive income. Any resulting decrease is directly charged against any related revaluation increment to the extent that the decrease does not exceed the amount of the revaluation increment in respect of the same assets. In case the land is disposed of, the related revaluation increment is transferred directly to retained earnings. Transfers from revaluation increment to retained earnings are not made through the consolidated statement of income.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets as follows:

| | Number of Years |
|---|---|
| Land improvements | 10 to 20 |
| Silos, buildings and improvements | 10 to 40 |
| Machinery and equipment | 10 to 25 |
| Transportation and delivery equipment | 5 |
| Office furniture and fixtures | 2 to 5 |

Leasehold improvements recognized under "Silos, buildings and improvements" are depreciated over the life of the assets or the lease term, whichever is shorter.

Construction in progress are properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, which are carried at cost less any recognized impairment loss. Construction in progress are reclassified into appropriate class of property, plant and equipment when the relevant assets are completed and available for use.

Depreciation and amortization of an item of property, plant and equipment begin when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation and amortization cease at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the asset is derecognized.

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Property, plant and equipment are derecognized when either these are disposed of or when these are permanently withdrawn from use and there is no more future economic benefits expected from its use or disposal.

*Right of use assets*
The Group's policy is to classify ROU assets as part of Property, Plant and Equipment account. The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of ROU assets includes the amount of lease liabilities recognized, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized ROU assets on warehouses and plant and equipment are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term, as follows:

| | Number of Years |
|---|---|
| ROU assets - Land and Warehouse | 2 to 30 |
| ROU assets - Plant and Equipment | 1 to 5 |

ROU assets are subject to impairment.



Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the consolidated statement of income in the year in which the expenditure is incurred.

The estimated useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives (e.g., computer software) are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income when the asset is derecognized.

As of December 31, 2022 and 2021, the Group's intangible assets consist of trademark with indefinite useful life and computer software that is amortized over three years using the straight-line method.

Business Combination and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets and financial liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and any gain or loss on remeasurement is recognized in the consolidated statement of income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU), or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or group of units.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every reporting date.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Investments in Joint Ventures and Associate

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries (e.g., contractual arrangements, voting rights and potential voting rights).

The Group's investments in joint venture and associate are accounted for using the equity method except for its investment in URICI, a joint venture, which is accounted for using the proportionate consolidation method as permitted by the SEC. This method involves consolidating a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the Group's consolidated financial statements on a line-by-line basis.

Under the equity method, the investment in an associate or a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of income reflects the Group's share of the financial performance of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the associate or joint venture, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.



The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the consolidated statement of income under "Other income (charges)" and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in an associate and joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investments in the associate and joint venture are impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

Impairment of Noncurrent Nonfinancial Assets

The carrying values of property, plant and equipment, and intangible assets (except trademark) are reviewed for impairment when event or changes in circumstances indicate that the carrying values may not be recoverable.

Trademark and goodwill are tested for impairment at least annually or when there is an identified indicator of impairment.

If any such indication exists or where the carrying value exceeds the recoverable amount, the asset is written down to its recoverable amount. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

The recoverable amount of an asset or CGU is the greater of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted. Impairment losses, if any, are recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as revaluation increase. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.



Equity

*Capital Stock*

Capital stock is stated at par value for all shares issued and outstanding. When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the "Additional paid-in capital" account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged to the "Additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case shares are issued to extinguish or to settle the liability of the Group, the share shall be measured at either the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

*Treasury Stock*

Own equity instruments which are reacquired (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying value and the consideration, if reissued, is recognized in the "Additional paid-in capital" account. The cost of treasury stock sold or cancelled is determined on a first-in, first-out basis.

When the shares are retired, the capital stock account is reduced by its par value, and the excess of cost over par value upon retirement is debited to "Additional paid-in capital" to the extent of the specific or average additional paid-in capital when the shares were issued and to the retained earnings for the remaining balance.

*Equity Reserve*

Equity reserve include effect of merger with subsidiaries with non-controlling interest and the Parent Company. Equity reserve is derecognized when the subsidiary is deconsolidated, which is the date on which control ceases.

*Retained Earnings*

Retained earnings represent the cumulative balance of periodic net income or loss, dividend distribution, effect of changes in accounting policy and other capital adjustments.

Dividends on Common Shares

Cash and property dividends on common shares are recognized as liability and deducted from equity when approved and declared by the BOD of the Parent Company. Stock dividends are treated as transfers from retained earnings to paid-in capital stock when approved and declared by the BOD and the stockholders representing at least two-thirds of the outstanding capital stock.

Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting period.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to equity holders of the Group by the weighted average number of common shares issued and outstanding during the year.

Diluted EPS is calculated in the same manner, adjusted for the effects of any potential dilutive common shares. Where the effect of the potential dilutive common shares would be anti-dilutive, basic and diluted earnings per share are stated at the same amount.



The Group does not have potential dilutive common shares in 2022, 2021 and 2020.

Revenue Recognition

*Revenue from Contracts with Customers*

The Group primarily derives its revenue from the sale of goods and rendering of services from manufacturing and service operations, respectively. Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized.

*Sale of goods (Manufacturing)*

The Group enters into a contract with customer through approved purchased orders and trading term agreements which constitute valid contracts as specific details such as the quantity, price, contract terms and their respective obligations are clearly identified in the contracts.

Revenue from sale of goods is recognized at a point in time generally, on the time of delivery of the goods to the customer except for institutional division sales of flour and buns, which are recognized at the time the goods are dispatched from the warehouses.

Revenue recognized comprises of the invoice price of goods delivered after the deduction of estimated variable considerations and considerations paid/payable to customers. Variable considerations such as discounts, rebates, returns, sales incentives, and other adjustments are provided for in the period the related sales are recorded. Accumulated experience is used to estimate the provision for discounts, using the most likely amount method; revenue is only recognized to the extent that it is highly probable a significant reversal will not occur.

*Sale of services (Service)*

Revenue, net of any incentives, is generally recognized over the time the services since as the entity performs, the customer simultaneously receives and consumes the benefits provided by the performance. The Company has determined that the output method used faithfully depicts the performance of the services.

Revenue not in scope under PFRS 15

*Rent*

Rent income is recognized on a straight-line basis over the terms of the lease.

*Interest and financing income*

Interest income is recognized as the interest accrues using the EIR method.

*Dividend income*

Dividend income on investments in shares of stock is recognized when the Group's right to receive the payment is established, which is the date when the dividend declaration is approved by the investee's BOD and/or the stockholders.



Cost of Goods Sold
Cost of goods sold is recognized when the related goods are sold.

Selling and Marketing and General and Administrative Expenses
Selling and marketing expenses are costs incurred to sell or distribute the goods. It includes export and documentation processing and delivery, among others. General and administrative expenses constitute costs of administering the business. These are expensed as incurred.

Short-term Employee Benefits
Short-term employee benefits include salaries and wages, vacation leave and sick leave benefits and other benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related services. These are recognized in the consolidated statements of income in the appropriate expense categories.

Retirement Benefits
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefits costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Re-measurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the consolidated statement of income.

Re-measurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized in other comprehensive income and transferred to retained earnings in the period in which they arise. Re-measurements are not reclassified to the consolidated statement of income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Fair value of plan assets is based on market price information. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they



have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Leases

*The Group as a lessee*

*Lease liabilities*

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to its leases of other equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

*The Group as lessor*

Leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. A lessor shall recognize lease payments from operating leases as income on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency Transactions and Translations

Transactions denominated in foreign currencies are recorded using the foreign exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are translated using the closing foreign exchange rate at the reporting date. All differences are taken to the consolidated statement of income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.



Taxes

*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used as basis to compute the amount are those that have been enacted or substantively enacted at the reporting date.

*Deferred income tax*

Deferred income tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences and carryforward benefits of unused tax credit from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) [excess MCIT], and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences and carryforward benefits of unused excess MCIT and NOLCO can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax asset to be recovered.

Deferred income tax assets and deferred income tax liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred income tax relating to items recognized outside the consolidated statement of income is recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to offset current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

*Value-added Tax (VAT)*

Revenues, expenses, and assets are recognized net of the amount of VAT, if applicable.

When VAT from sales of goods and/or services (output VAT) exceeds VAT passed on from purchases of goods or services (input VAT), the excess is recognized as payable in the consolidated statement of financial position. When VAT passed on from purchases of goods or services (input VAT) exceeds VAT from sales of goods and/or services (output VAT), the excess is recognized as an asset in the consolidated statement of financial position to the extent of the recoverable amount.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products provided, with each segment representing a strategic business unit that offers different products and serves different markets.



Provision and Contingencies
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. The expense relating to any provision is presented in the consolidated statement of income, net of reimbursement. If the effect of the time value of money is material, provisions are discounted using the current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements unless the outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

Events After the Reporting Date
Events after the reporting date that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Events after the reporting date that are not adjusting events are disclosed in the notes to consolidated financial statement when material.

## 3. Management's Use of Significant Accounting Estimates and Assumptions

The preparation of the consolidated financial statements in compliance with PFRS requires the Group to exercise judgment, make accounting estimates and use assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The judgments, estimates and assumptions are based on management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from the estimates and assumptions used. The effect of any change in estimates or assumptions is reflected in the consolidated financial statements when they become reasonably determinable.

Judgment
In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

*Determination of useful life of trademark*
The assessment of indefinite useful life is reviewed annually to determine whether the indefinite useful life continues to be appropriate. When there are events that indicate that the indefinite useful life assessment is no longer appropriate, the useful life assessment will be changed from indefinite to finite.

Based on analysis of relevant factors indicated below, management has assessed that there is no foreseeable limit to the period over which the trademark is expected to generate cash inflows for the Group:

- Management does not expect to encounter significant difficulties in renewing the registration of the trademark.



- Management has assessed that the cost of renewing the trademark as insignificant when compared with the economic benefits expected to flow to the Group from the continued use of the trademark.
- Management is committed to continue to invest for the long term to extend the period over which the trademark is expected to continue to provide economic benefits.

Consequently, management assessed that the trademark has an indefinite useful life as of December 31, 2022 and 2021.

*Definition of Default and Credit-impaired Financial Assets*
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit-impaired, when contractual payments are already past due for a certain number of days, which depends on the normal customer arrangements and business terms and varies across relevant business segment/sub-segment of the Group, ranging from 90 days to 360 days. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full. The criteria above have been applied to all financial assets measured at amortized cost held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to calculate the Group's expected loss. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria.

*Simplified approach for trade receivables*
The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer accounts that have similar loss patterns (i.e., by segment and customer type). The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrices to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

*Use of Macro-economic Forecasts and Incorporation of Forward-looking Information*
Macro-economic forecasts are determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost and effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group takes into consideration using different macro-economic variables to ensure linear relationship between internal rates and outside factors. Regression analysis was used to objectively determine which variables to use.

Predictive relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Macro-economic indicators that are considered relevant to the Group include, but not limited to consumer price index, unemployment rate and consumer confidence.

*Grouping of instruments for losses measured on collective basis.*
For expected credit loss provisions modelled on a collective basis, a grouping of exposures is performed on the basis of shared risk characteristics, such that risk exposures within a group are homogeneous. The Group considers in its collective assessment based on its business segments and type of customers. The appropriateness of groupings is monitored and reviewed on a periodic basis by Group. As of December 31, 2022 and 2021, the total gross carrying amount of trade receivables for which lifetime



ECLs have been measured on a collective basis amounted to ₱1,907.80 million and ₱1,817.68 million, respectively (see Note 6).

*Revenue recognition on sale of goods*
The Group's main revenue source is its sale of goods. Revenue recognition under PFRS 15 involves the Group's application of significant judgment and estimation in the: (a) identification of the contract for sale of goods that would meet the requirements of PFRS 15; (b) assessment of performance obligation and the probability that the entity will collect the consideration from the customer; (c) determining method to estimate variable consideration and assessing the constraint; and (d) recognition of revenue as the Group satisfies the performance obligation.

*a) Existence of a contract*
The Group's primary document for a contract with a customer are approved purchased order and trading terms agreement with terms clearly identified including the product specification and payment terms and, for some customer groups, with a signed marketing and distributorship agreement. Each party's rights regarding the goods to be transferred is clearly identified including the product specification, quantity and payment terms. In addition, part of the assessment process of the Group before revenue recognition is to assess the probability that the Group will collect the consideration to which it will be entitled in exchange for the goods sold that will be transferred to the customer.

b) *Identifying performance obligation*
The Group identifies performance obligations by considering whether the promised goods or services in the contract are distinct goods or services. A good or service is distinct when the customer can benefit from the good or service on its own or together with other resources that are readily available to the customer and the Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract. The Group undertakes to sell the products specified including its quantity indicated in an approved purchased order. This is considered as one performance obligation.

*c) Recognition of revenue as the Group satisfies the performance obligation.*
The Group recognizes its revenue for the majority of its revenue streams at a point in time, where the goods are sold and delivered, except for flour sales which are recognized at the time the goods are dispatched from the warehouse.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

*Impairment of trademark and goodwill*
The Group reviews for impairment the carrying value of trademark and goodwill annually every reporting period. For purposes of impairment testing of trademark and goodwill, the most appropriate valuation approach used is based on the circumstances relevant to the Group and based on the extent of available information. The Group determined that the recoverable amount of the trademark with infinite useful life is fair value less cost of disposal wherein fair value is determined using the relief from royalty method. The recoverable amount of the trademark was calculated using cashflow projections from financial budgets, discount rate, revenue growth rates, budgeted brand support and royalty savings rate arising from the ownership of the trademark. The key assumptions used to determine the fair value are further discussed in Note 13.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU or group of CGUs to which the goodwill relates. The Group determined that the recoverable amount of the goodwill is VIU. VIU calculation is based on a discounted cash flow model. The recoverable amount is sensitive to the discount rate used and the expected future cash in-flows and the growth rates. Assessments require the use of estimates and assumptions such as discount rates, revenue growth rates, maintenance capital expenditures and projected operating expenses. If the recoverable amount of the unit exceeds the carrying amount of the CGU, the CGU and the goodwill allocated to that CGU shall be regarded as not impaired. Where the recoverable amount of the CGU or group of CGUs is less than the carrying amount of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. The key assumptions used to determine the recoverable amount are further discussed in Note 13.

No impairment losses were recognized for trademark and goodwill in 2022, 2021 and 2020 (see Note 13).

*Impairment of property, plant and equipment*
The Group assesses impairment on the assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the estimated recoverable amount represents the net fair value less costs to sell.

In 2022, 2021 and 2020, the Group did not have significant impairment loss in its property, plant and equipment (see Note 12).

*Valuation of land under revaluation basis*
The Group's parcels of land are carried at revalued amounts, which approximate their fair values at the date of the revaluation, less any subsequent accumulated impairment losses. The revaluation is performed by professionally qualified appraisers and uses the Sales Comparison Approach (see Note 12). Revaluations are made every three to five years to ensure that the carrying amounts do not differ materially from those which would be determined using fair values at the reporting date.

As of December 31, 2022 and 2021, the carrying values of parcels of land carried at revalued amounts amounted to ₱3,552.34 million (see Note 12).

*Leases - Estimating the Incremental Borrowing Rate (IBR)*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value

to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs (such as risk-free interest rates) when available and is required to make certain entity-specific estimates (such as the Group's stand-alone credit risk rating).

The Group's lease liabilities amounted to ₱356.61 million and ₱351.88 million as of December 31, 2022 and 2021, respectively (see Note 29).

*Estimation of expected credit losses.*
ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate, or an approximation thereof. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Refer to Note 6 for the ECL recognized on the Group's receivables.

*Estimation of useful lives of property, plant and equipment (excluding ROU assets)*
The Group estimates the useful lives of depreciable property, plant and equipment based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets. Estimated useful lives are based on the periods over which the assets are expected to be available for use. The estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical and commercial obsolescence and legal or other limits on the use of the assets. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment would increase the recorded operating expenses and decrease the carrying value of the assets and vice versa.

There had been no changes in the estimated useful lives of property, plant and equipment in 2022 and 2021. The carrying values of property, plant and equipment are disclosed in Note 12 to the consolidated financial statements.

*Recognition of deferred income tax assets*
The Group reviews the carrying amounts of deferred income tax assets at each reporting date and adjusts the balance of deferred income tax assets to the extent that it is probable that the Group will be able to utilize the tax benefits arising from these deferred income tax assets and that sufficient future taxable profits are available for the utilization of the deferred income tax assets recognized.

Deferred income tax assets recognized amounted to ₱494.93 million and ₱468.48 million as of December 31, 2022 and 2021, respectively (see Note 23).

*Estimation of retirement benefit obligation*
The determination of the Group's retirement benefit obligation depends on the selection by management of certain assumptions used by the actuary in calculating such amounts. Those assumptions are described in Note 22 and include, among others the discount rate and rate of salary increase.

Net retirement asset amounted to ₱13.85 million as of December 31, 2022 and net retirement obligation amounted to ₱8.45 million and ₱48.63 million as of December 31, 2022 and 2021, respectively (see Note 22).



## 4. Segment Information and Revenue from Contracts with Customers

The Group's management reports its operating business segments into the following: (a) consumer business, (b) institutional business, and (c) other operations. The consumer business segment manufactures ice cream products, milk and juices, and sells the latter together with pasta and rice-based mixes. The institutional business segment primarily manufactures flour and bread products, pasta and rice-based mixes but only sells flour and bread products. Other segments consist of lighterage, office space leasing and other services shown in aggregate as "Other operations". These are the operating segments reported to the chief operating decision maker.

The operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. All operating business segments used by the Group meet the definition of reportable segment under PFRS 8, *Segment Reporting*.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of trade, wages and taxes currently payable and accrued liabilities.

Intersegment transactions, i.e., segment revenues and segment expenses, include transfers between business segments. Those transfers are eliminated in consolidation and reflected in the "eliminations" column.

The Group does not have a single external customer from which revenue generated amounted to 10% or more of the total revenue of the Group.

Information with regard to the Group's significant business segments follows:

| | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Consumer Business | Institutional Business | Other Operations | Unallocated Corporate Balances | Total | Eliminations (Note 17) | Consolidated |
| **Net Sales** | | | | | | | |
| External sales | ₱14,031,124 | ₱5,316,279 | ₱3,846 | ₱34,402 | ₱19,385,651 | ₱– | ₱19,385,651 |
| Intersegment sales | – | – | 24,276 | 11,782 | 36,058 | (36,058) | – |
| | ₱14,031,124 | ₱5,316,279 | ₱28,122 | ₱46,184 | ₱19,421,709 | (₱36,058) | ₱19,385,651 |
| **Results** | | | | | | | |
| Interest and other financial charges - net | (₱56,670) | ₱14 | ₱15 | ₱60,874 | ₱4,233 | ₱3,830 | ₱8,063 |
| Equity in net earnings of an associate | ₱– | ₱– | ₱5,177 | ₱– | ₱5,177 | ₱7,248 | ₱12,425 |
| Income before income tax | ₱1,164,872 | ₱304,137 | ₱3,937 | ₱1,018,257 | ₱2,491,203 | (₱1,090,315) | ₱1,400,888 |
| Provision for income tax | (317,707) | – | (76) | (17,436) | (335,219) | 3,033 | (332,186) |
| Net income | ₱847,165 | ₱304,137 | ₱3,861 | ₱1,000,821 | ₱2,155,984 | (₱1,087,282) | ₱1,068,702 |
| **Other information** | | | | | | | |
| Segment assets | ₱31,027,071 | ₱35,233,018 | ₱151,278 | ₱15,272,488 | ₱81,683,855 | (₱62,775,806) | ₱18,908,049 |
| Investments | – | – | 61,732 | 2,248,705 | 2,310,437 | (360,588) | 1,949,849 |
| **Consolidated Total Assets** | ₱31,027,071 | ₱35,233,018 | ₱213,010 | ₱17,521,193 | ₱83,994,292 | (₱63,136,394) | ₱20,857,898 |
| **Consolidated Total Liabilities** | ₱30,905,364 | ₱24,148,959 | ₱349,119 | ₱15,256,832 | ₱70,660,274 | (₱63,209,691) | ₱7,450,583 |
| **Capital expenditures** | ₱232,681 | ₱123,254 | ₱– | ₱7,464 | ₱363,399 | ₱– | ₱363,399 |
| **Depreciation and amortization** | 344,190 | 164,380 | 10,825 | 12,496 | 531,891 | – | 531,891 |

| | 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Consumer Business | Institutional Business | Other Operations | Unallocated Corporate Balances | Total | Eliminations (Note 17) | Consolidated |
| Net Sales | | | | | | | |
| External sales | ₱12,701,541 | ₱4,134,601 | ₱12,171 | ₱31,413 | ₱16,879,726 | ₱– | ₱16,879,726 |
| Intersegment sales | – | – | 12,835 | 10,272 | 23,107 | (23,107) | - |
| | ₱12,701,541 | ₱4,134,601 | ₱25,006 | ₱41,685 | ₱16,902,833 | (₱23,107) | ₱16,879,726 |
| Results | | | | | | | |
| Interest and other financial charges - net | (₱50,527) | ₱86 | ₱15 | ₱28,622 | (₱21,804) | ₱7,162 | (₱14,642) |
| Equity in net earnings of an associate | ₱– | ₱– | ₱5,109 | ₱– | ₱5,109 | ₱7,152 | ₱12,261 |
| Income before income tax | ₱1,419,569 | ₱445,166 | ₱5,890 | ₱979,418 | ₱2,850,043 | (₱1,085,864) | ₱1,764,179 |
| Provision for income tax | (333,853) | – | (400) | (124,697) | (458,950) | 3,978 | (454,972) |
| Net income | ₱1,085,716 | ₱445,166 | ₱5,490 | ₱854,721 | ₱2,391,093 | (₱1,081,886) | ₱1,309,207 |
| Other information | | | | | | | |
| Segment assets | ₱39,608,186 | ₱43,896,746 | ₱146,826 | ₱24,650,869 | ₱108,302,627 | (₱92,138,543) | ₱16,164,084 |
| Investments | – | – | 61,665 | 3,991,029 | 4,052,694 | (356,426) | 3,696,268 |
| Consolidated Total Assets | ₱39,608,186 | ₱43,896,746 | ₱208,491 | ₱28,641,898 | ₱112,355,321 | (₱92,494,969) | ₱19,860,352 |
| Consolidated Total Liabilities | ₱39,283,320 | ₱33,116,824 | ₱344,312 | ₱26,423,759 | ₱99,168,215 | (₱92,591,133) | ₱6,577,082 |
| Capital expenditures | ₱293,174 | ₱38,613 | ₱– | ₱1,884 | ₱333,671 | ₱– | ₱333,671 |
| Depreciation and amortization | 387,941 | 172,559 | 8,158 | 13,365 | 582,023 | – | 582,023 |

| | 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Consumer Business** | **Institutional Business** | **Other Operations** | **Unallocated Corporate Balances** | **Total** | **Eliminations** (Note 17) | **Consolidated** |
| **Net Sales** | | | | | | | |
| External sales | ₱11,714,928 | ₱3,951,647 | ₱4,888 | ₱29,443 | ₱15,700,906 | ₱– | ₱15,700,906 |
| Intersegment sales | – | – | 25,718 | 9,400 | 35,118 | (35,118) | – |
| | ₱11,714,928 | ₱3,951,647 | ₱30,606 | ₱38,843 | ₱15,736,024 | (₱35,118) | ₱15,700,906 |
| **Results** | | | | | | | |
| Interest and other financial charges - net | (₱68,618) | ₱10 | ₱2,570 | ₱37,120 | (₱28,918) | ₱8,827 | (₱20,091) |
| Equity in net earnings of an associate | ₱– | ₱– | ₱5,093 | ₱– | ₱5,093 | ₱7,130 | ₱12,223 |
| Income before income tax | ₱1,461,376 | ₱421,896 | ₱9,907 | ₱191,043 | ₱2,084,222 | (₱271,749) | ₱1,812,473 |
| Provision for income tax | (325,326) | – | (1,463) | (201,141) | (527,930) | 3,107 | (524,823) |
| Net income | ₱1,136,050 | ₱421,896 | ₱8,444 | (₱10,098) | ₱1,556,292 | (₱268,642) | ₱1,287,650 |
| **Other information** | | | | | | | |
| Segment assets | ₱31,043,547 | ₱33,781,485 | ₱184,787 | ₱15,799,725 | ₱80,809,544 | (₱63,667,948) | ₱17,141,596 |
| Investments | – | – | 61,649 | 2,146,399 | 2,208,048 | (353,410) | 1,854,638 |
| **Consolidated Total Assets** | ₱31,043,547 | ₱33,781,485 | ₱246,436 | ₱17,946,124 | ₱83,017,592 | (₱64,021,358) | ₱18,996,234 |
| **Consolidated Total Liabilities** | ₱30,776,848 | ₱23,446,728 | ₱383,059 | ₱15,973,932 | ₱70,580,567 | (₱64,154,237) | ₱6,426,330 |
| **Capital expenditures** | ₱359,355 | ₱153,806 | ₱– | ₱6,689 | ₱519,850 | ₱– | ₱519,850 |
| **Depreciation and amortization** | 357,529 | 175,849 | 7,073 | 16,047 | 556,498 | – | 556,498 |

*Revenue from Contracts with Customers*

The Group's revenues are from its sale of goods and rendering of services. The Group's revenues from its sale of goods are all recognized at a point in time while revenues from rendering of services are recognized over time following the output method (see Note 2).

The following table disaggregates the Group's revenues on sale of goods by segment for the years ended December 31, 2022, 2021 and 2020:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Institutional business | **₱5,316,279** | ₱4,134,601 | ₱3,951,647 |
| Consumer business | **14,031,124** | 12,701,541 | 11,714,928 |
| Total revenue from contracts with customers | **₱19,347,403** | ₱16,836,142 | ₱15,666,575 |

Total revenue recognized from services rendered in 2022, 2021 and 2020 amounted to ₱38.25 million, ₱43.58 million and ₱34.3 million, respectively.

## 5. Cash and Cash Equivalents and Short-term Cash Investments

*Cash and cash equivalents*

| | **2022** | 2021 |
|---|---|---|
| Cash on hand and in banks | **₱2,424,133** | ₱1,915,775 |
| Cash equivalents | **1,080,516** | 140,009 |
| | **₱3,504,649** | ₱2,055,784 |

Cash in banks earns interest at the respective bank deposit rates. Cash equivalents are short-term investments made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income earned from cash in banks and cash equivalents amounted to ₱3.65 million, ₱1.28 million and ₱2.50 million in 2022, 2021 and 2020, respectively (see Note 20).

## 6. Receivables

| | **2022** | 2021 |
|---|---|---|
| Trade receivables: | | |
| Third parties | **₱1,881,272** | ₱1,795,234 |
| Related parties (Note 21) | **26,532** | 22,449 |
| Advances to related parties (Note 21) | **148,407** | 148,347 |
| Advances to officers and employees | **22,362** | 21,953 |
| Nontrade receivables | **127,476** | 135,075 |
| Other receivables | **63,274** | 62,658 |
| | **2,269,323** | 2,185,716 |
| Less: Allowance for ECL | **488,124** | 412,284 |
| | **₱1,781,199** | ₱1,773,432 |

Trade receivables are noninterest-bearing and are generally on a 30 to 60 days term. Nontrade receivables include amounts owed by third parties for transfer of raw materials and are generally on 30 to 120 days term.

The movement in the allowance for doubtful accounts, which were determined using specific and collective impairment follows:

| | **2022** | | | | | |
|---|---|---|---|---|---|---|
| | **Trade Receivables** | **Nontrade receivables** | **Advances to officers and employees** | **Advances to Related Parties** | **Other receivables** | **Total** |
| At January 1, | **₱321,845** | **₱4,307** | **₱4,856** | **₱48,620** | **₱32,656** | **₱412,284** |
| ECL Provisions (Notes 17, 18 and 19) | **55,840** | **20,000** | **–** | **–** | **–** | **75,840** |
| At December 31 | **₱377,685** | **₱24,307** | **₱4,856** | **₱48,620** | **₱32,656** | **₱488,124** |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Trade Receivables | Nontrade receivables | Advances to officers and employees | Advances to Related Parties | Other receivables | Total |
| At January 1, | ₱240,960 | ₱4,307 | ₱4,856 | ₱48,620 | ₱32,656 | ₱331,399 |
| ECL Provisions (Notes 18 and 19) | 80,885 | – | – | – | – | 80,885 |
| At December 31 | ₱321,845 | ₱4,307 | ₱4,856 | ₱48,620 | ₱32,656 | ₱412,284 |

## 7. Inventories

| | **2022** | 2021 |
|---|---|---|
| At NRV: | | |
| Finished goods | **₱893,179** | ₱731,332 |
| Spare parts and supplies | **227,395** | 187,507 |
| Raw materials | **63,267** | 88,225 |
| | **1,183,841** | 1,007,064 |
| At cost: | | |
| Raw materials | **1,527,638** | 858,565 |
| Raw materials in transit | **295,757** | 47,913 |
| Goods in process | **281** | 977 |
| | **1,823,676** | 907,455 |
| | **₱3,007,517** | ₱1,914,519 |

Total cost of inventories stated at NRV are as follows:

| | **2022** | 2021 |
|---|---|---|
| Finished goods | **₱992,983** | ₱787,241 |
| Raw materials | **105,594** | 99,307 |
| Spare parts and supplies | **231,565** | 191,678 |
| | **₱1,330,142** | ₱1,078,226 |

The cost of inventories recognized as cost of goods sold amounted to ₱11,077.96 million, ₱8,729.90 million and ₱7,819.83 million and for the years ended December 31, 2022, 2021 and 2020 respectively (see Note 17).

Movements in the allowance for losses and inventory obsolescence are as follows:

| | **2022** | 2021 |
|---|---|---|
| Balance at beginning of year | **₱71,162** | ₱64,494 |
| Provisions (Note 17) | **106,991** | 42,140 |
| Write-off | **(31,852)** | (35,472) |
| Balance at end of year | **₱146,301** | ₱71,162 |

## 8. Other Current Assets

Other current assets consist of:

| | **2022** | 2021 |
|---|---|---|
| Deposits on purchases | **₱37,242** | ₱33,963 |
| Prepaid expenses | **45,943** | 20,532 |
| Creditable withholding taxes | **75,776** | 15,950 |
| Input VAT | **5,017** | 4,261 |
| Others | **37,588** | 60,253 |
| | **₱201,566** | ₱134,959 |

Others include advances given to key customers to ensure full alignment and execution of the strategic joint business plan of URICI and the customers.

## 9. Financial Assets at FVOCI

*Financial assets at FVOCI*
The Group's financial assets at FVOCI consists of various government and corporate debt securities amounting to ₱1,806.40 million and ₱3,548.73 million as of December 31, 2022 and 2021, respectively. These securities have maturity terms ranging from less than a year to 4 years.

In 2022, 2021, and 2020, the Company sold a portion of its investment securities at FVOCI with a carrying value amounting to ₱524.40 million, ₱253.59 million, and ₱752.66 million respectively, which resulted to the recognition of loss on sale amounting to ₱0.6 million and ₱0.05 million and gain on sale amounting to ₱0.40 million, respectively, included in 'Other income" account. Additionally, the Group recognized interest income amounting to ₱57.37 million, ₱26.67 million, and ₱16.49 million in interest coupon payments from various government and corporate bond instruments for the years ended December 31, 2022, 2021, and 2020, respectively.

Rollforward analysis of debt securities at FVOCI with recycling as of December 31, 2022 and 2021 follows :

| | **2022** | 2021 |
|---|---|---|
| At amortized cost: | | |
| At beginning of year | **₱3,564,605** | ₱1,699,791 |
| Additions | **1,756,305** | 8,058,356 |
| Amortizations | **5,169** | 10,129 |
| Maturities | **(2,867,000)** | (5,950,084) |
| Disposals | **(524,398)** | (253,587) |
| At end of year | **1,934,681** | 3,564,605 |
| Change in fair value of financial assets | | |
| At beginning of year | **(15,878)** | ₱4,306 |
| Unrealized loss recognized in OCI | **(112,400)** | (20,184) |
| At end of year | **(128,278)** | (15,878) |
| Balance at the end of the year | **1,806,403** | ₱3,548,727 |
| Less: Current portion | **299,759** | 2,376,264 |
| Noncurrent portion | **₱1,506,644** | ₱1,172,463 |

The movements in net unrealized gain recognized in other comprehensive income follow:

a) For the years ended December 31, 2022, 2021, and 2020 the nominal interest rates of government securities range from 2.63% to 5.01%, 2.63% to 4.38%, and 0.2% to 4.05%, respectively, while effective interest rates range from 1.57% to 4.01%, 0.73% to 3.16%, and 0.8% to 4.05%, respectively.
b) For the years ended December 31, 2022, 2021, and 2020, the nominal and effective interest rates of private debt security are 2.81%, nil, and 4.05%, respectively.

The net unrealized gain (loss) on financial assets at FVOCI amounted to (₱112.40 million) and (₱14.92 million) and ₱3.01 million for the Group, net of deferred income tax effect amounting to nil, ₱5.26 million, and ₱1.29 million in 2022, 2021, and 2020, respectively.

## 10. Investments in Joint Venture and an Associate

| | **2022** | 2021 |
|---|---|---|
| **Cost** | **₱141,313** | ₱141,313 |
| **Accumulated equity in net earnings** | | |
| Beginning of year | **6,228** | 9,228 |
| Equity in net earnings for the year | **12,425** | 12,261 |
| Dividends received | **(16,520)** | (15,261) |
| End of year | **2,133** | 6,228 |
| Carrying value | **₱143,446** | ₱147,541 |

Summarized financial information of Selecta Walls Land Corporation (SWLC), an associate, as of and for the years ended December 31 follow:

| | **2022** | 2021 |
|---|---|---|
| Current assets (includes cash amounting to ₱49.60 million and ₱27.72 million as of December 31, 2022 and 2021, respectively) | **₱49,662** | ₱28,300 |
| Noncurrent assets | **225,271** | 225,613 |
| Current liabilities (includes income tax payable amounting to ₱0.98 million and ₱0.60 million as of December 31, 2022 and 2021, respectively) | **22,549** | 1,803 |
| Revenue | **26,930** | 26,930 |
| Interest income | **33** | 46 |
| Expenses | **(2,352)** | (3,029) |
| Provision for income tax | **(3,902)** | (3,513) |
| Net income | **₱20,709** | ₱20,434 |

The carrying amount of the investment is computed as follows:

| | **2022** | 2021 |
|---|---|---|
| Equity | **₱229,655** | ₱236,480 |
| Beneficial interest (Note 11) | **60%** | 60% |
| Share of the Group | **137,793** | 141,888 |
| Premium paid | **2,528** | 2,528 |
| Carrying amount of the investment | **₱140,321** | ₱144,416 |

Dividends received from SWLC amounted to ₱16.52 million, ₱15.26 million and ₱15.17 million in 2022, 2021 and 2020, respectively. Equity in net earnings of an associate, presented as part of "Other income - net" in the consolidated statements of income, amounted to ₱12.43 million, ₱12.26 million and ₱12.22 million in 2022, 2021 and 2020, respectively.

SWLC's primary purpose is to acquire, own, use, develop and hold for investment all kinds of real estate and its s registered office address and principal place of business is Manggahan Light Industrial Compound, Bo. Manggahan, Pasig City.

Engrain-RFM Pacific, Inc.
In 2013, the Parent Company entered into a joint arrangement with Engrain LLC to form a new corporation named Engrain-RFM Pacific, Inc., the primary purpose of which is to sell, market, distribute at wholesale enzyme-enhanced flour-based products for the Philippines and Asia Pacific market. The Parent Company has a 50% equity interest in the said arrangement. The Parent Company has accounted for its investment in Engrain-RFM Pacific, Inc. as a joint venture under PFRS 11.

Engrain-RFM Pacific, Inc. has not yet started commercial operations. Cost of investment in Engrain-RFM Pacific, Inc. amounted to ₱3.13 million as of December 31, 2022 and 2021.

Engrain-RFM Pacific, Inc.'s principal place of business is the same as with the Parent Company.

## 11. Interest in Joint Venture Proportionately Consolidated

URICI, a 50% joint venture of the Parent Company and Unilever Philippines, Inc. (UPI), is engaged in manufacturing, distributing, marketing, selling, importing, exporting and dealing in ice cream, ice cream desserts and ice cream novelties and similar food products. Based on the buy-out formula as stipulated in the shareholders' agreement between the Parent Company and Unilever Philippines, Inc., the estimated value of the Parent Company's 50% ownership interest in URICI amounted to ₱8,981.19 million and ₱7,750.33 million as of December 31, 2022 and 2021, respectively.

On October 1, 2012, the Parent Company requested from the SEC for an exemptive relief from the adoption of PFRS 11 on its investment in URICI. On November 22, 2012, upon consideration of the Parent Company's justifications, the SEC approved that the Parent Company be relieved from the adoption of PFRS 11 on its investment in URICI on the following grounds:

- Material impact

  The transition from the proportionate consolidation method to equity method in accounting for the Parent Company's interest in URICI would materially affect the Parent Company's consolidated financial statement line items decreasing revenue, gross profit, net operating income, gross assets and gross liabilities.

- Peculiarities of the arrangement

  a. The trademark agreement indicates that URICI can use "Selecta" licensed trademarks, trade names, logos, designs, symbols, words or devices other than the marks only upon approval of the Parent Company. This is an indication that the Parent Company has an indirect control on the activities being performed under the joint arrangement.

The use of the trademark license by URICI is under the control of the Parent Company. Accordingly, the main products produced by URICI must conform to the quality standards of the Parent Company.

b. URICI does not own any real property and instead, has a lease agreement with SWLC, the lessor. SWLC is 35% and 25% owned by the Parent Company and WS Holdings, Inc. (WSHI), respectively, and 40% owned by Unilever, a foreign corporation. WSHI is 60% owned by the Parent Company.

Presented below is the impact (in thousands) on the consolidated financial statements if PFRS 11 is applied on the Parent Company's investment in URICI:

| Increase (Decrease) in | **2022** | 2021 |
|---|---|---|
| *Consolidated Statements of Financial Position* | | |
| Cash and cash equivalents | **(₱504,410)** | (₱428,250) |
| Receivables | **(560,998)** | (519,198) |
| Inventories | **(425,654)** | (332,286) |
| Other current assets | **(62,349)** | (55,767) |
| Total Current Assets | **(1,553,411)** | (1,335,501) |
| Property, plant and equipment - net (at cost) | **(1,492,402)** | (1,523,311) |
| Right of use assets - net* | **(226,247)** | (262,444) |
| Investment in associate and joint venture | **747,116** | 888,835 |
| Intangible assets | **(190,563)** | (190,563) |
| Deferred tax assets - net | **(139,467)** | (137,763) |
| Other noncurrent assets | **(234,814)** | (67,456) |
| Total Noncurrent Assets | **(1,536,377)** | (1,292,702) |
| Total Assets | **(₱3,089,788)** | (₱2,628,203) |

**Shown as part of Property, plant and equipment in the face of consolidated financial statements.*

| Decrease in | **2022** | 2021 |
|---|---|---|
| Bank loans | **(₱1,000,000)** | (₱600,000) |
| Accounts payable and other current liabilities | **(1,727,179)** | (1,578,296) |
| Lease liabilities | **(62,774)** | (44,401) |
| Income tax payable | **(35,622)** | (72,405) |
| Total Current Liabilities | **(2,825,575)** | (2,295,102) |
| Lease liabilities - net of current portion | **(255,763)** | (301,870) |
| Net retirement obligation | **(8,450)** | (31,231) |
| Total Noncurrent Liabilities | **(264,213)** | (333,101) |
| Total Liabilities | **(₱3,089,788)** | (₱2,628,203) |

| Decrease in | **2022** | 2021 | 2020 |
|---|---|---|---|
| *Consolidated Statements of Income* | | | |
| Revenue | **(₱6,444,515)** | (₱5,495,931) | (₱4,959,748) |
| Cost of goods sold | **(3,289,442)** | (2,750,945) | (2,516,888) |
| Gross profit | **(3,155,073)** | (2,744,986) | (2,442,860) |
| Operating expenses | **(1,888,892)** | (1,439,541) | (1,308,472) |
| Income from operations | **(1,266,181)** | (1,305,445) | (1,134,388) |
| Other income - net | **5,749** | 15,010 | (51,044) |
| Provision for income tax | **(314,672)** | (329,875) | (325,326) |
| Net income | **(945,760)** | (960,560) | (758,018) |
| Share in the net income of the JV | **(945,760)** | 960,560 | 758,018 |
| | **₱–** | ₱– | ₱– |

Summarized financial information (before any adjustments during consolidation) of URICI (in thousands) as of and for the years ended December 31 follow:

| Statements of Financial Position | **2022** | 2021 |
|---|---|---|
| Current assets (includes cash amounting to ₱1,008.82 million and ₱856.50 million as of December 31, 2022 and 2021, respectively) | **₱3,106,823** | ₱2,671,001 |
| Noncurrent assets | **4,433,669** | 4,291,665 |
| Current liabilities (includes income tax payable amounting to ₱71.24 million and ₱144.81 million as of December 31, 2022 and 2021, respectively) | **5,710,517** | 4,656,600 |
| Noncurrent liabilities (includes net retirement obligation amounting to ₱16.90 million and ₱62.46 million as of December 31, 2022 and 2021, respectively) | **692,804** | 897,859 |

| Statements of Comprehensive Income | **2022** | 2021 | 2020 |
|---|---|---|---|
| Revenue | **₱12,889,030** | ₱10,991,862 | ₱9,919,496 |
| Depreciation and amortization expense | **613,278** | 593,201 | 563,720 |
| Interest income | **1,032** | 1,476 | 1,311 |
| Interest expense | **110,730** | 97,665 | 129,321 |
| Provision for income tax | **635,413** | 667,708 | 650,653 |
| Net income | **1,891,519** | 1,921,120 | 1,516,035 |
| Other comprehensive income (loss) - remeasurement loss on net retirement obligation | **19,878** | 27,189 | (18,080) |
| Total comprehensive income | **₱1,911,397** | ₱1,948,309 | ₱1,497,955 |

The above financials are adjusted in the consolidated financial statements in relation to the Group's adoption of PFRS 16 under the modified retrospective approach.

In 2022, 2021 and 2020, dividends received by the Parent Company from URICI amounted to ₱1,094.53 million, ₱1,078.23 million and ₱267.85 million, respectively.

## 12. Property, Plant and Equipment

As of December 31, 2022:

| | | At Cost | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Land at Appraised Value | Land Improvements | Silos Buildings and Improvements | Machinery and Equipment | Transportation and Delivery Equipment | Office Furniture and Fixtures | Construction in Progress | ROU Assets Land and Building | ROU Assets Equipment | Total |
| **At Cost** | | | | | | | | | | |
| At January 1 | **₱3,552,339** | **₱17,324** | **₱1,597,467** | **₱6,872,309** | **₱135,631** | **₱206,197** | **₱269,849** | **₱446,655** | **₱44,227** | **₱9,589,659** |
| Additions | – | – | **98,845** | **86,526** | **6,897** | **35,686** | **135,241** | **117,199** | – | **480,394** |
| Write-off/disposal/others | – | – | – | **(95,832)** | **(2,491)** | – | **(8,174)** | **(113,442)** | **(19,773)** | **(239,712)** |
| Transfer/reclassifications | – | – | **15,281** | **89,110** | – | – | **(104,391)** | – | – | – |
| At December 31 | **3,552,339** | **17,324** | **1,711,593** | **6,952,113** | **140,037** | **241,883** | **292,525** | **450,412** | **24,454** | **9,830,341** |
| **Accumulated Depreciation** | | | | | | | | | | |
| At January 1 | – | **15,655** | **901,991** | **3,916,212** | **120,669** | **170,932** | – | **201,215** | **30,677** | **5,357,351** |
| Depreciation and amortization (Note 20) | – | **522** | **81,498** | **310,946** | **7,252** | **18,848** | – | **103,090** | **9,718** | **531,874** |
| Write-off/disposal/others | – | – | – | **(95,832)** | **(2,190)** | – | – | **(113,442)** | **(19,773)** | **(231,237)** |
| At December 31 | – | **16,177** | **983,489** | **4,131,326** | **125,731** | **189,780** | – | **190,863** | **20,622** | **5,657,988** |
| **Accumulated impairment loss:** | | | | | | | | | | |
| At January 1 | – | – | – | **24,343** | – | – | – | – | – | **24,343** |
| Impairment loss (reversal) | – | – | – | **(1,506)** | – | – | – | – | – | **(1,506)** |
| At December 31 | – | – | – | **22,837** | – | – | – | – | – | **22,837** |
| **Net Book Values at December 31** | **₱3,552,339** | **₱1,147** | **₱728,104** | **₱2,797,950** | **₱14,306** | **₱52,103** | **₱292,525** | **₱259,549** | **₱3,832** | **₱4,149,516** |

As of December 31, 2021:

| | At Cost | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Land at Appraised Value | Land Improvements | Silos Buildings and Improvements | Machinery and Equipment | Transportation and Delivery Equipment | Office Furniture and Fixtures | Construction in Progress | ROU Assets Land and Building | ROU Assets Equipment | Total |
| At Cost | | | | | | | | | | |
| At January 1 | ₱3,552,339 | ₱17,324 | ₱1,584,812 | ₱6,808,633 | ₱125,907 | ₱189,264 | ₱191,762 | ₱448,512 | ₱44,594 | ₱9,410,808 |
| Additions | – | – | 12,514 | 133,166 | 6,786 | 17,253 | 163,952 | 7,815 | – | 341,486 |
| Write-off/disposal/others | – | – | (1,850) | (145,037) | (1,613) | (320) | (3,776) | (9,672) | (367) | (162,635) |
| Transfer/reclassifications | – | – | 1,991 | 75,547 | 4,551 | – | (82,089) | – | – | – |
| At December 31 | 3,552,339 | 17,324 | 1,597,467 | 6,872,309 | 135,631 | 206,197 | 269,849 | 446,655 | 44,227 | 9,589,659 |
| Accumulated Depreciation | | | | | | | | | | |
| At January 1 | – | 15,135 | 825,763 | 3,655,287 | 110,518 | 153,434 | – | 136,162 | 20,977 | 4,917,276 |
| Depreciation and amortization (Note 20) | – | 520 | 77,879 | 395,068 | 6,633 | 17,498 | – | 74,725 | 9,700 | 582,023 |
| Write-off/disposal/others | – | – | (1,651) | (129,591) | (1,034) | – | – | (9,672) | – | (141,948) |
| Transfer/reclassifications | – | – | – | (4,552) | 4,552 | – | – | – | – | – |
| At December 31 | – | 15,655 | 901,991 | 3,916,212 | 120,669 | 170,932 | – | 201,215 | 30,677 | 5,357,351 |
| Accumulated impairment loss: | | | | | | | | | | |
| At January 1 | – | – | – | 22,232 | – | – | – | – | – | 22,232 |
| Impairment loss | – | – | – | 2,111 | – | – | – | – | – | 2,111 |
| At December 31 | – | – | – | 24,343 | – | – | – | – | – | 24,343 |
| Net Book Values at December 31 | ₱3,552,339 | ₱1,669 | ₱695,476 | ₱2,931,754 | ₱14,962 | ₱35,265 | ₱269,849 | ₱245,440 | ₱13,550 | ₱4,207,965 |

Construction in progress (CIP) as of December 31, 2022 includes the construction of the Mixing and Ultra-High Temperature Line Project for the Milk and Juice Division, while CIP as of December 31, 2021 includes the construction of additional warehouse also for the Milk and Juice Division.

*Land*
As of December 31, 2022 and 2021, the aggregate fair values of land amounted to ₱3,552.34 million. The fair values of land were determined on December 31, 2020 using the Sales Comparison Approach. This is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may be considered. Factors such as the property location, desirability, neighborhood, utility, size, terrain and the time element are involved in estimating the market value of the land. The valuation is performed by an SEC-accredited independent valuer who has valuation experience for similar properties in the Philippines since 1980. Gain from the revaluation of the land amounting to ₱440.80 million was recognized in 2020.

The cost of these parcels of land amounted to ₱558.94 million as of December 31, 2022 and 2021.

The fair value has been categorized as Level 3 fair value measurement based on the inputs to valuation technique used. The significant unobservable valuation input used is price per square meter ranging from ₱5,400 to ₱81,700. Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value.

## 13. Intangible Assets

Intangible assets pertain to the following as at December 31:

**2022**

| | Trademark | Goodwill | Computer Software | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At January 1 | **₱2,080,932** | **₱190,563** | **₱9,097** | **₱2,280,592** |
| Addition | **–** | **–** | **204** | **204** |
| At December 31 | **₱2,080,932** | **₱190,563** | **₱9,301** | **₱2,280,796** |
| **Accumulated Amortization** | | | | |
| At January 1 | **–** | **–** | **9,097** | **9,097** |
| Amortization | **–** | **–** | **17** | **17** |
| At December 31 | **–** | **–** | **9,114** | **9,114** |
| Net Book Values | **₱2,080,932** | **₱190,563** | **₱187** | **₱2,271,682** |

2021

| | Trademark | Goodwill | Computer Software | Total |
|---|---|---|---|---|
| Cost | ₱2,080,932 | ₱190,563 | ₱9,097 | ₱2,280,592 |
| Accumulated Amortization | | | | |
| At January 1 and December 31 | – | – | 9,097 | 9,097 |
| Net Book Values | ₱2,080,932 | ₱190,563 | ₱– | ₱2,271,495 |

Trademark
In January 2014, the Parent Company acquired the Royal trademark from the Unilever Group for ₱2.1 billion (US$46.0 million). Management assessed that the Royal pasta trademark has an indefinite useful life (see Note 3). Consequently, the trademark is subject to impairment testing at least annually or when impairment indicators are identified. Management has determined that the recoverable amount of trademark is fair value less cost of disposal wherein fair value is determined using the relief from royalty method. This method considers royalty savings accruing to the Parent Company arising from

the ownership of the trademark using cash flow projections based on the financial budgets approved by BOD covering 10-year explicit forecast period. Management assessed the costs of disposal, which mainly pertain to the cost of transferring the certificate of registration with the Intellectual Property Office and documentary stamp tax, to be insignificant.

Key assumptions used to determine the fair value as of and for the years ended December 31 follow:

| Assumptions | **2022** | 2021 | Description |
|---|---|---|---|
| Discount rate | **11.61%** | 9.21% | Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset. Management used discount rate based on weighted average cost of capital (WACC). |
| Growth rates | **7% to 35%** | 7% to 35% | Growth rates in revenues are based on the Parent Company's expectations of market developments and past historical performance. Growth rates used are highest on the immediately preceding years and flattens over the budget period. The growth rate used to project revenue in the long term is 8% in 2022 and 7% in 2021. |
| Royalty savings rate | **5%** | 10% | Royalty savings rate is based on the prevailing comparable past trademark royalty rate obtained from survey by independent third party. |
| Budgeted brand support | **2%** | 3% | Cash flow forecast for brand support is based on past experience and is approved by the Parent Company's BOD. Brand support is based on revenues. |

As of December 31, 2022 and 2021, the recoverable amount of the trademark is higher than its carrying value. Management believes that an increase in discount rate by 1.6% and 9.9% as of December 31, 2022 and 2021 would cause the carrying value of the Royal pasta trademark to equal the recoverable amount.

Goodwill

Goodwill amounting to ₱190.56 million pertains to the Parent Company's investment in URICI (see Note 2). Goodwill is subject to impairment testing at least annually or when impairment indicators are identified. Management has determined that the recoverable amount of the goodwill is value-in-use, which is based on a discounted cash flow model. The cash flow projections are based on financial projections approved by BOD covering a 5-year explicit forecast period, including a terminal value.

Key assumptions used to determine value-in-use as of and for the years ended December 31 follow:

| Assumptions | **2022** | 2021 | Description |
|---|---|---|---|
| Discount rate | **10.38%** | 9.4% | Pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the asset. Management used discount rate based on weighted average cost of capital (WACC). |
| Growth rates | **8.0% to 16%** | 8.0% to 8.2% | Growth rates in revenues are based on URICI's expectations of market developments and past historical performance. |
| Operating expenses and maintenance capital expenditures | | | Are based on approved financial budgets by the BOD |

As of December 31, 2022 and 2021, the recoverable amount of goodwill is higher than its carrying value. Management believes that a decrease in growth rate by 6.0% and 13.3% as of December 31, 2022 and 2021 would cause the carrying value of the CGU including goodwill to equal the recoverable amount.

## 14. Accounts Payable and Other Current Liabilities

| | **2022** | 2021 |
|---|---|---|
| Accrued expenses | **₱3,202,953** | ₱3,009,186 |
| Trade payables: | | |
| Third parties | **1,809,197** | 1,382,830 |
| Related parties (Note 21) | **34,097** | 35,423 |
| Advances from related parties (Note 21) | **17,660** | 17,652 |
| Withholding taxes and other government payables | **73,943** | 76,050 |
| Customer's deposit | **7,070** | 92,920 |
| Other payables | **428,716** | 347,817 |
| | **₱5,573,636** | ₱4,961,878 |

Trade payables are noninterest-bearing and are generally settled on 30-60 days' terms.

Other payables include other deferred credits, cash bonds from distributors as security to retain their credit line, equipment purchases and non-trade purchases in the ordinary course of business.

Details of accrued expenses follow:

| | **2022** | 2021 |
|---|---|---|
| Advertisements and promotions | **₱1,467,531** | ₱1,219,514 |
| Profit bonus | **680,416** | 655,704 |
| Payroll | **228,552** | 198,431 |
| Freight and handling | **150,463** | 148,115 |
| Manpower services | **86,810** | 148,913 |
| Commission | **92,948** | 76,438 |
| Rentals | **74,389** | 29,944 |
| Accrued merchandising charges | **19,939** | 22,935 |
| Importation | **32,097** | 6,365 |
| Interest | **3,586** | 1,988 |
| Others | **366,222** | 500,839 |
| | **₱3,202,953** | ₱3,009,186 |

Other accrued expenses mainly consist of accrued expenses for royalties, utilities and other payables.

## 15. Bank Loans

Bank loans represent the Group's proportionate share in the unsecured short-term loans of URICI from local banks and lending investors bearing effective annual interest rates within the range of 3% to 5% in 2022 and 3% to 5.4% in 2021. The Group's share in the outstanding principal balance of these bank loans amounted to ₱1,000.00 million and ₱600.00 million as of December 31, 2022 and 2021, respectively.

The movements in bank loans are as follows:

| | **2022** | 2021 |
|---|---|---|
| At January 1 | **₱600,000** | ₱595,000 |
| Availments | **16,300,000** | 9,810,000 |
| Payments | **(15,900,000)** | (9,805,000) |
| | **₱1,000,000** | ₱600,000 |

Interest expense on bank loans amounted to ₱26.32 million, ₱14.67 million and ₱25.41 million in 2022, 2021 and 2020, respectively (see Note 20).

## 16. Equity

Capital stock

On October 14, 2013, the SEC approved the amendment of the Parent Company's articles of incorporation to remove the pre-emptive rights of the stockholders to all issuances or dispositions of any class of shares of the Parent Company, unless otherwise prescribed by the BOD.

As of December 31, 2022 and 2021, the Parent Company has 3,978,265,025 authorized common shares with ₱1 par value per share. Issued and outstanding common shares of 3,369,549,358 and 3,369,549,358 are held by 3,109 and 3,128 shareholders as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021 capital stock consists of the following:

| | **Number of Shares** | | | |
|---|---|---|---|---|
| | **Authorized** | | **Issued and Outstanding** | |
| | **2022** | 2021 | **2022** | 2021 |
| Issued | **3,978,265,025** | 3,978,265,025 | **3,651,021,310** | 3,651,021,310 |
| Less: Treasury stock | **–** | – | **(281,471,952)** | (281,471,952) |
| Issued and Outstanding | **3,978,265,025** | 3,978,265,025 | **3,369,549,358** | 3,369,549,358 |

Below is a summary of the capital stock movement of the Parent Company:

| Year | Date of Transaction | Common Stock Transactions | |
|---|---|---|---|
| 1993 | | 185,800,356 | |
| 1994 | August 3, 1994 | 93,304,663 | (a) |
| 1995 | April 7, 1995 | 1,116,420,076 | (b) |
| 1997 | February 25, 1997 | 5,950,650 | (c) |
| 1998 | | 20,042,392 | (c) |
| 1999 | | 1,804,979 | (c) |
| 2000 | July 21, 2000 | 229,582,173 | (d) |
| 2000 | December 14, 2000 | 45,252,983 | (d) |
| 2001 | Various | 21,950,505 | (c) |
| 2002 | Various | 195,891,163 | (c) |
| 2006 | March 17, 2006 | 47,857,244 | (d) |
| 2008 | June 28, 2007 | 1,963,857,184 | (e) |
| 2008 | July 29, 2008 | (767,310,502) | (f) |
| 2014 | March 24, 2014 | 340,000,000 | (g) |

| Year | Date of Transaction | Common Stock Transactions | |
|---|---|---|---|
| 2016 | Various | (74,973,600) | (h) |
| 2016 | Various | 70,810,600 | (h) |
| 2017 | Various | (26,592,400) | (i) |
| 2017 | Various | 27,864,600 | (i) |
| 2018 | Various | (19,655,200) | (j) |
| 2018 | Various | 4,200,000 | (j) |
| 2019 | Various | (34,676,500) | (k) |
| 2019 | Various | 5,181,000 | (k) |
| 2019 | Various | 4,120,492 | (l) |
| 2020 | Various | (87,133,500) | (m) |
| | | 3,369,549,358 | |

(a) On July 28, 1994, the SEC approved the Parent Company's declaration of a 50% stock dividend.
(b) On April 7, 1995, the SEC approved a 5-for-1 stock split for the common stock, effectively reducing the par value from ₱10.00 to ₱2.00.
(c) This is the result of the conversion of Parent Company's preferred shares to common shares. Conversion of shares was made at various dates within the year.
(d) Information on the offer price is not available since the shares were not issued in relation to a public offering.
(e) On June 28, 2007, the SEC approved the 2-for-1 stock split for the common stock, effectively reducing the par value from ₱2.00 to ₱1.00.
(f) On July 29, 2008, the company retired its shares amounted to ₱991.76 million.
(g) On March 24, 2014, the Parent Company issued additional 340.00 million shares.
(h) Purchased 74.97 million treasury stock amounting to ₱313.68 million on various dates in 2016. Re-issued 70.81 million treasury stock amounting to ₱302.23 million on various dates in 2016 resulting in excess of issue price over the cost of treasury stock amounting to ₱8.71 million which is presented under "Additional paid-in capital" account in equity.
(i) Purchased 26.59 million treasury stock amounting to ₱121.80 million on various dates in 2017. Re-issued 27.86 million treasury stock amounting to ₱129.80 million on various dates in 2017 resulting in excess of issue price over the cost of treasury stock amounting to ₱2.14 million which is presented under "Additional paid-in capital" account in equity.
(j) Purchased 19.66 million treasury stock amounting to ₱92.76 million on various dates in 2018. Re-issued 4.20 million treasury stock amounting to ₱20.68 million on various dates in 2018 resulting in excess of cost of treasury stock over the issue price amounting to ₱0.22 million which is presented under "Additional paid-in capital" account in equity.
(k) Purchased 34.68 million treasury stock amounting to ₱167.24 million on various dates in 2019. Re-issued 5.18 million treasury shares amounting to ₱24.23 million on various dates in 2019 resulting in excess of cost of treasury shares over the issue price amounting to ₱1.16 million which is presented under "Additional paid-in capital" account in equity.
(l) This is the result of issuance of shares of the Parent Company, as a consideration for the merger, 4,120,492 shares were issued to the minority shareholders and 146,496,952 shares were considered as treasury shares.
(m) Purchased 87.13 million shares into treasury amounting to ₱382.86 million on various dates in 2020.

Retained earnings

The details of the Parent Company's declaration of cash dividends follow:

| Date of BOD Approval | Amount (in millions) | Type | Amount per share | Record date | Payment Date |
|---|---|---|---|---|---|
| September 1, 2022 | ₱200.00 | Cash | ₱0.059355 | September 15, 2022 | October 11, 2022 |
| June 27, 2022 | 260.59 | Cash | 0.077335 | July 11, 2022 | August 4, 2022 |
| January 12, 2022 | 394.02 | Cash | 0.116936 | January 26, 2022 | February 22, 2022 |
| June 30, 2021 | 416.81 | Cash | 0.123700 | July 14, 2021 | August 9, 2021 |
| January 25, 2021 | 355.77 | Cash | 0.103870 | February 8, 2021 | March 8, 2021 |
| July 29, 2020 | 371.48 | Cash | 0.106000 | August 13, 2020 | September 10, 2020 |
| February 5, 2020 | 371.48 | Cash | 0.106000 | February 19, 2020 | March 17, 2020 |

The Group's retained earnings as of December 31, 2022 is restricted for the payment of dividends to the extent of the cost of treasury stock, deferred income tax assets, accumulated equity in undistributed net earnings of an associate, partially consolidated joint venture (see Note 2) and consolidated subsidiaries amounting to ₱545.87 million. In accordance with Revised SRC Rule 68, Annex 68C, the retained earnings available for dividend declaration as of December 31, 2022 amounted to ₱5.96 billion.

*Equity reserve*
On July 31, 2018, the Board of Directors (BOD) of the Parent Company approved the upstream merger among the Parent Company (the Surviving Corporation) and Cabuyao Logistics and Industrial Center (CLIC), Interbake Commissary Corporation (ICC) and Invest Asia Corporation (IAC) (the Absorbed Corporations). On January 31, 2019, the SEC has approved the said merger.

As a result of merger, the Parent Company has acquired the net assets including previous share of noncontrolling interest and possessed all the right, privileges and immunities of the Absorbed Corporations. All properties and receivables due to the Absorbed Corporations shall be taken and deemed to be transferred to and vested in the Parent Company without further act or deed.

The Parent Company considered the legal merger as, in substance, the redemption of shares in the subsidiaries, in exchange for the underlying assets of such subsidiaries. As a result, the acquired assets and assumed liabilities of the Absorbed Corporations were recognized at the carrying amounts in the consolidated financial statements as of the date of the merger. This includes any goodwill, intangible assets, or purchase price allocation adjustments that were recognized when the subsidiaries were originally acquired, less the related amortization, depreciation or impairment losses, as applicable, as well as the revaluation increment on the property, plant and equipment, of the Absorbed Corporations.

The shares issued by the Parent Company is currently classified as treasury shares. The difference between the consideration paid by the Parent Company and the net assets acquired of the Absorbed Corporations was accounted for as "Equity Reserve" in the consolidated statements of changes in equity.

## 17. Sales Revenue, Cost of Sales and Services

*Sales Revenue*
The Group primarily derives its revenue from the sale of goods and rendering of services from its manufacturing and service operations.

*Disaggregated revenue information*
Set out below is the disaggregation of the Group's revenues from contracts with customers and revenues not covered under PFRS 15.

**2022**

| | Consumer business | Institutional business | Corporate | Others | Total |
|---|---|---|---|---|---|
| Sale of goods | **₱14,031,124** | **₱5,316,279** | **₱–** | **₱–** | **₱19,347,403** |
| Sale of services | – | – | **34,402** | **3,846** | **38,248** |
| | **₱14,031,124** | **₱5,316,279** | **₱34,402** | **₱3,846** | **₱19,385,651** |

2021

| | Consumer business | Institutional business | Corporate | Others | Total |
|---|---|---|---|---|---|
| Sale of goods | ₱12,701,541 | ₱4,134,601 | ₱– | ₱– | ₱16,836,142 |
| Sale of services | – | – | 31,413 | 12,171 | 43,584 |
| | ₱12,701,541 | ₱4,134,601 | ₱31,413 | ₱12,171 | ₱16,879,726 |

2020

| | Consumer business | Institutional business | Corporate | Others | Total |
|---|---|---|---|---|---|
| Sale of goods | ₱11,714,928 | ₱3,951,647 | ₱– | ₱– | ₱15,666,575 |
| Sale of services | – | – | 29,443 | 4,888 | 34,331 |
| | ₱11,714,928 | ₱3,951,647 | ₱29,443 | ₱4,888 | ₱15,700,906 |

Sale of good pertain to contracts with costumers where goods are transferred at a point in time. On the other hand, sales of services are contracts with costumers where services are transferred over time.

Intersegment eliminating adjustments relate to sales of goods amounting to ₱36.06 million, ₱23.11 million and ₱35.12 million in 2022, 2021 and 2020, respectively. There are no unsatisfied nor partially satisfied performance obligations in 2022, 2021 and 2020.

*Cost of Sales and Services*

This account consists of:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Raw materials used and changes in inventories (Note 7) | **₱11,077,966** | ₱8,729,894 | ₱7,819,825 |
| Outside services | **668,205** | 666,252 | 758,002 |
| Utilities | **379,582** | 283,676 | 286,639 |
| Depreciation and amortization (Notes 20 and 29) | **345,925** | 391,209 | 356,754 |
| Personnel costs (Note 20) | **262,646** | 260,486 | 246,612 |
| Repairs and maintenance | **260,668** | 244,224 | 208,756 |
| Rental (Note 29) | **119,735** | 50,929 | 109,056 |
| Provision for inventory obsolescence (Note 7) | **106,991** | 42,140 | 59,906 |
| Direct labor | **13,199** | 13,786 | 12,879 |
| Fuel and oil | **6,608** | 3,819 | 2,485 |
| Taxes and licenses | **1,550** | 1,418 | 1,784 |
| Other expenses | **303,288** | 251,565 | 115,688 |
| | **₱13,546,363** | ₱10,939,398 | ₱9,978,386 |

## 18. Selling and Marketing Expenses

This account consists of:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Advertisements | **₱1,215,385** | ₱1,250,100 | ₱1,101,334 |
| Freight and handling | **1,107,517** | 973,990 | 964,637 |
| Outside services | **460,788** | 422,947 | 402,718 |
| Personnel costs (Note 20) | **101,540** | 81,931 | 85,729 |
| Rental (Note 29) | **99,456** | 86,903 | 64,928 |
| Depreciation and amortization (Notes 20 and 29) | **55,950** | 47,239 | 48,607 |
| Provision for expected credit losses (Note 6) | **55,830** | 80,885 | 81,166 |
| Transportation and travel | **6,403** | 4,026 | 4,956 |
| Other expenses | **92,214** | 81,384 | 123,672 |
| | **₱3,195,083** | ₱3,029,405 | ₱2,877,747 |

Other expenses include utilities, repairs and maintenance and other miscellaneous expenses.

## 19. General and Administrative Expenses

This account consists of:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Personnel costs (Note 20) | **₱523,211** | ₱612,550 | ₱514,583 |
| Royalty and service fees (Note 24) | **234,588** | 55,667 | 64,100 |
| Depreciation and amortization (Notes 20 and 29) | **130,016** | 143,575 | 151,137 |
| Taxes and licenses | **63,742** | 84,993 | 62,347 |
| Professional fees | **63,641** | 64,391 | 61,670 |
| Outside services | **55,136** | 60,923 | 32,308 |
| Repairs and maintenance | **37,303** | 34,280 | 35,472 |
| Utilities | **31,843** | 32,393 | 25,274 |
| Director's fees | **27,069** | 26,619 | 24,480 |
| Provision for expected credit losses (Notes 6 and 21) | **20,000** | – | – |
| Advertising and promotion | **18,033** | 19,241 | 10,328 |
| Transportation and travel | **15,233** | 4,777 | 4,616 |
| Rental (Note 29) | **8,551** | 3,758 | 4,496 |
| Representation and entertainment | **2,127** | 3,422 | 4,377 |
| Office supplies | **2,103** | 2,398 | 3,784 |
| Other expenses | **56,597** | 45,915 | 32,677 |
| | **₱1,289,193** | ₱1,194,902 | ₱1,031,649 |

20. **Other Income (Charges)**

Interest Income

This account consists of:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Interest income on: | | | |
| Investment in FVOCI (Note 11) | **₱57,374** | ₱26,669 | ₱16,492 |
| Cash and cash equivalents (Note 5) | **3,645** | 1,277 | 2,497 |
| Short-term investments | **–** | 820 | 14,675 |
| HTC investments | **–** | – | 6,290 |
| | **₱61,019** | ₱28,766 | ₱39,954 |

Short-term cash investments amounting to ₱648.99 million as of December 31, 2020 have maturities of more than three months to one year from dates of acquisition. Interest income earned on short-term cash investments amounted to ₱0.82 million and ₱14.67 million in 2021 and 2020, respectively.

Personnel Costs

This account consists of:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Salaries and wages | **₱579,599** | ₱569,066 | ₱561,289 |
| Retirement benefits costs (Note 22) | **23,797** | 29,784 | 23,652 |
| Other employee benefits | **284,001** | 356,117 | 261,983 |
| | **₱887,397** | ₱954,967 | ₱846,924 |

The distribution of the above amounts follows:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| General and administrative expenses (Note 19) | **₱523,211** | ₱612,550 | ₱514,583 |
| Cost of sales and services (Note 17) | **262,646** | 260,486 | 246,612 |
| Selling and marketing expenses (Note 18) | **101,540** | 81,931 | 85,729 |
| | **₱887,397** | ₱954,967 | ₱846,924 |

Depreciation of Property, Plant and Equipment, and Computer Software

This account consists of:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Property, plant and equipment (Notes 12 and 13) | **₱531,891** | ₱582,023 | ₱556,498 |

Distribution of the above amounts follows:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Cost of sales and services (Note 17) | **₱345,925** | ₱391,209 | ₱356,754 |
| General and administrative expenses (Note 19) | **130,016** | 143,575 | 151,137 |
| Selling and marketing expenses (Note 18) | **55,950** | 47,239 | 48,607 |
| | **₱531,891** | ₱582,023 | ₱556,498 |

Interest Expense

This account consists of:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Interest expense on lease liabilities (Note 29) | **₱26,583** | ₱28,735 | ₱34,375 |
| Interest expense on bank loans (Note 15) | **26,320** | 14,665 | 25,411 |
| Others | **53** | 8 | 259 |
| | **₱52,956** | ₱43,408 | ₱60,045 |

## 21. Related Party Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

*Terms and Conditions of Transactions with Related Parties*
There have been no guarantees provided or received for any related party receivables or payables. These accounts are non-interest bearing, generally unsecured and will be settled in cash. This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

The Group's transactions and account balances with related parties follows:

| | | **2022** | | 2021 | | | | |
|---|---|---|---|---|---|---|---|---|
| Related Parties | Transaction | **Amount** | **Outstanding receivable (payable)** | Amount | Outstanding receivable (payable) | Statement of Financial Position Account | Terms | Conditions |
| **Joint venture** | | | | | | | | |
| URICI | Service agreement | **₱–** | **₱–** | ₱55,667 | ₱– | Advances from related parties (Note 14) | Non-interest-bearing, collectible in 60 days | Unsecured, no impairment |
| -do- | -do- | – | – | 57,512 | – | Advances to related parties (Note 6) | -do- | Unsecured, no impairment |
| -do- | Management service income | **21,747** | **10,902** | 18,106 | 6,766 | Trade Receivables (Note 6) | Non-interest bearing, collectible on demand but not later than 12 months | Unsecured, no impairment |
| -do- | Service fees | – | **(1,289)** | – | (1,289) | Advances to related parties (Note 6) | Non-interest bearing, collectible on demand but not later than 12 months | Unsecured |

(Forward)

| Related Parties | Transaction | **2022** **Amount** | **2022** **Outstanding receivable (payable)** | 2021 Amount | 2021 Outstanding receivable (payable) | Statement of Financial Position Account | Terms | Conditions |
|---|---|---|---|---|---|---|---|---|
| **Entities under common major shareholder group** | | | | | | | | |
| Joey Pepperoni | Sales of goods | **₱–** | **₱1,396** | ₱– | ₱1,396 | Trade Receivables (Note 6) | Non-interest bearing, collectible in 60 days | -do- |
| Philtown | Advances | **–** | **107,689** | – | 107,689 | Advances to related parties (Note 6) | Non-interest-bearing | Secured by a property of Philtown; due and demandable; partially impaired |
| -do- | Current Advances | **–** | **31,207** | – | 31,207 | Advances to related parties (Note 6) | -do- | Unsecured, no impairment |
| Kettle Foods Corporation | Purchase of goods | **496** | **1,489** | 284 | – | Trade Payables (Note 14) | Non-interest-bearing, collectible in 60 days | -do- |
| Republic Consolidated Corporation | Purchase of services | **–** | **(22,542)** | – | (22,542) | Trade Payables (Note 14) | Non-interest-bearing, collectible in 60 days | -do- |
| Others | Advances to related parties | **60** | **10,800** | – | 10,740 | Advances to related parties (Note 6) | Non-interest bearing | Unsecured, no impairment |
| -do- | Trade Receivables | **(53)** | **14,234** | – | 14,287 | Trade Receivables (Note 6) | Non-interest bearing | Unsecured, no impairment |
| -do- | Trade Payable | **(163)** | **(13,044)** | – | (12,881) | Trade Payables (Note 14) | Non-interest bearing | Unsecured |
| -do- | Advances from Related Parties | **(8)** | **(17,660)** | – | (17,652) | Advances from related parties (Note 14) | Non-interest bearing | Unsecured |

The consolidated statements of financial position as of December 31, 2022 and 2021 include the following amounts resulting from transactions with related parties:

| | **2022** | 2021 |
|---|---|---|
| Trade receivables - related parties (Note 6) | **₱26,532** | ₱22,449 |
| Advances to related parties (Note 6) | **148,407** | 148,347 |
| Trade payables - related parties (Note 14) | **(34,097)** | (35,423) |
| Advances from related parties (Note 14) | **(17,660)** | (17,652) |

On October 18, 2017, REI and Philtown Properties, Inc. (Philtown) executed a loan agreement whereby REI agreed to lend Philtown a total amount of ₱82.71 million. Philtown assigned its receivables from a third-party worth ₱29.17 million to secure a portion of the loan while the rest is secured by a real estate mortgage executed by Philtown. As of December 31, 2022 and 2021, outstanding receivables from Philtown related to this agreement amounted to ₱31.21 million, which is presented as part of "Receivables" in the consolidated statements of financial position (see Note 6).

Significant transactions with subsidiaries and joint venture which have been eliminated in the consolidation:

a. Distribution services provided by the Parent Company to URICI for the export of frozen dairy dessert/mellorine whereby URICI pays service fees equivalent to 7% of the total net sales value of goods distributed. Service fees amounted to ₱21.75 million, ₱18.11 million and ₱18.11 million in 2022, 2021 and 2020, respectively.

b. The Parent Company engages RLC for its lighterage requirements. Service fees to RLC amounted to ₱3.39 million, ₱14.18 million and ₱25.72 million in 2022, 2021 and 2020, respectively.

Compensation of key management personnel of the Group by benefit type follows:

| | **2022** | 2021 |
|---|---|---|
| Salaries and other short-term benefits | **₱115,107** | ₱103,607 |
| Proportionate share in share-based compensation of URICI | **836** | 836 |
| Retirement benefits costs | **5,448** | 8,617 |
| | **₱121,391** | ₱113,060 |

## 22. Retirement Benefits

The Parent Company and joint venture have funded, noncontributory defined benefit retirement plans (the Plans) covering substantially all their permanent employees.

The most recent actuarial valuation was carried out for the retirement plan of the Parent Company and joint venture as of December 31, 2022.

a. Retirement Benefit Cost

The components of retirement benefit cost recognized in the consolidated statements of income for the years ended December 31 follow:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Current service cost | **₱22,184** | ₱25,919 | ₱24,119 |
| Net interest cost | **1,618** | 3,865 | 6,070 |
| Effects of curtailment | **(5)** | – | (6,537) |
| Retirement benefits costs | **₱23,797** | ₱29,784 | ₱23,652 |

b. Net Retirement Obligation

The details of the net retirement obligation (asset) recognized in the consolidated statements of financial position as of December 31 follow:

| | **2022** | 2021 |
|---|---|---|
| Defined benefit obligation | **₱321,010** | ₱363,781 |
| Fair value of plan assets | **(326,406)** | (315,155) |
| Net retirement obligation | **(₱5,396)** | ₱48,626 |

The Group's summary of net retirement obligation (asset) follow:

| | **2022** | 2021 |
|---|---|---|
| Net retirement obligation (asset) | **(₱13,846)** | ₱17,395 |
| Net retirement obligation | **8,450** | 31,231 |
| | **(₱5,396)** | ₱48,626 |

Movement in net retirement obligation follow:

| | **2022** | 2021 |
|---|---|---|
| January 1 | **₱48,626** | ₱138,884 |
| Retirement benefit cost | **23,797** | 29,784 |
| Remeasurement gain | **(35,089)** | (67,420) |
| Transfers | **–** | (1,026) |
| Actual contribution | **(39,000)** | (51,596) |
| Benefits paid out of Group's operating funds | **(3,730)** | – |
| Net retirement obligation | **(₱5,396)** | ₱48,626 |

Changes in the present value of the defined benefit obligation follow:

| | **2022** | 2021 |
|---|---|---|
| January 1 | **₱363,781** | ₱425,216 |
| Current service cost | **22,184** | 25,919 |
| Interest cost | **17,188** | 15,093 |
| Remeasurement gains due to: | | |
| Experience adjustments | **(1,039)** | (39,554) |
| Changes in financial assumptions | **(50,840)** | (36,684) |
| Benefits paid out of the plan assets | **(26,529)** | (25,183) |
| Benefits paid out of Group's operating funds | **(3,730)** | – |
| Effects of curtailment | **(5)** | – |
| Transfers | **–** | (1,026) |
| December 31 | **₱321,010** | ₱363,781 |

Changes in the fair value of plan assets follow:

| | **2022** | 2021 |
|---|---|---|
| January 1 | **₱315,155** | ₱286,332 |
| Contributions | **39,000** | 51,596 |
| Asset return included in net interest cost | **15,570** | 11,228 |
| Benefits paid out of the plan assets | **(26,529)** | (25,183) |
| Remeasurement loss | **(16,790)** | (8,818) |
| December 31 | **₱326,406** | ₱315,155 |

Breakdown of the plan assets follow:

| | **2022** | 2021 |
|---|---|---|
| Investments in: | | |
| Debt securities other than bonds | **₱13,719** | ₱37,380 |
| Equity securities | **7,587** | 7,407 |
| Corporate bonds | **200,115** | 179,419 |
| Real estate | **9,019** | 7,831 |
| Unit investment trust fund | **81,142** | 81,918 |
| Cash and cash equivalents | **13,573** | 311 |
| Receivables | **1,346** | 984 |
| | **326,501** | 315,250 |
| Payables | **(95)** | (95) |
| | **₱326,406** | ₱315,155 |

The plan assets are held by a trustee bank. The investing decisions of these plan assets are made by the authorized officers of the Group.

The principal assumptions used in determining the defined benefit obligation of the Group follow:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Discount rate at January 1 | **4.90% to 4.95%** | 3.66% to 3.70% | 4.78% to 5.00% |
| Future annual increase in salary rate | **5.00% to 5.90%** | 5.00% to 5.90% | 5.00% to 5.90% |
| Turnover rate | A scale ranging from 21% at age 18 to 0% at age 65 | | |

Discount rates and salary increase rate used to value defined benefit obligation of the Group as of December 31, 2022 were 7.16% to 7.20%. and 5.00% to 5.90%, respectively.

The following are expected payments to be made out of the defined benefit plan obligation in the future years:

| | **2022** | 2021 |
|---|---|---|
| One year and less | **₱83,402** | ₱24,272 |
| Between 1 and 5 years | **152,421** | 184,571 |
| Between 5 and 10 years | **138,993** | 163,540 |
| Between 10 and 15 years | **128,774** | 104,246 |
| Between 15 and 20 years | **122,070** | 135,210 |
| Beyond 20 years | **292,194** | 272,620 |
| Total expected payments | **₱917,854** | ₱884,459 |

The average duration of the defined benefit plan obligations as of December 31, 2022 and 2021 ranges from 8.2 to 14.43 years.

The Group expects to contribute ₱23.96 million to the retirement fund in 2023.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, assuming if all other assumptions were held constant:

| | **2022** | | 2021 | |
|---|---|---|---|---|
| | **Increase/ (Decrease) in Basis Points** | **Effect on Defined Benefit Retirement Obligation** | Increase/ (Decrease) in Basis Points | Effect on Defined Benefit Retirement Obligation |
| Discount rate | **+100** | **(₱17,343)** | +100 | (₱24,667) |
| | **-100** | **19,763** | -100 | 28,503 |
| Salary increase rate | **+100** | **21,314** | +100 | 29,512 |
| | **-100** | **(19,039)** | -100 | (26,062) |
| Turnover rate | **+2000** | **(454)** | +2000 | (3,144) |
| | **-2000** | **479** | -2000 | 3,729 |

## 23. Income Taxes

a. Provision for income tax for the years ended December 31 follow:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Current | **₱370,669** | ₱449,739 | ₱563,156 |
| Deferred | **(38,483)** | 5,233 | (38,333) |
| | **₱332,186** | ₱454,972 | ₱524,823 |

b. The components of the Group's deferred income taxes follow:

| | **2022** | 2021 |
|---|---|---|
| *Deferred income tax recognized in profit or loss:* | | |
| Deferred income tax assets on: | | |
| Accrual for profit bonus | **₱170,104** | ₱163,926 |
| Allowances/provisions for: | | |
| ECL | **122,031** | 103,071 |
| Inventory obsolescence | **36,575** | 17,791 |
| Impairment loss on property, plant and equipment | **5,709** | 6,086 |
| Accrued advertisements and promotions | **58,854** | 61,997 |
| Lease liability - net | **23,307** | 23,223 |
| Unamortized past service cost | **28,936** | 30,555 |
| Excess MCIT | **–** | 11 |
| Others | **12,013** | 11,676 |
| | **457,529** | 418,336 |

(Forward)

| | **2022** | 2021 |
|---|---|---|
| Deferred income tax liabilities on: | | |
| Net retirement obligation | **(₱36,049)** | (₱34,014) |
| Others | **–** | (1,325) |
| | **(36,049)** | (35,339) |
| | **421,480** | 382,997 |
| *Deferred income tax recognized in other comprehensive income:* | | |
| Deferred income tax asset on cumulative actuarial losses on defined benefit plan | **37,398** | 46,170 |
| Deferred income tax liability on revaluation increment on land | **(748,351)** | (748,351) |
| Unrealized gain on financial assets at FVOCI | **–** | 3,969 |
| | **(710,953)** | (698,212) |
| Net deferred income tax liabilities | **(₱289,473)** | (₱315,215) |

The Group's summary of net deferred tax assets and net liabilities follow:

| | **2022** | 2021 |
|---|---|---|
| Deferred tax assets - net | **₱186,794** | ₱185,119 |
| Deferred tax liabilities - net | **(476,267)** | (500,334) |
| | **(₱289,473)** | (₱315,215) |

c. The Group's MCIT coming from CLIC and IAC amounting to ₱11 has expired in 2022.

d. A reconciliation of the provision for income tax computed at the statutory income tax rate based on income before income tax to the provision for income computed at the Group's effective income tax rate for the years ended December 31 follows:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Provision for income tax at the statutory income tax rate | **₱350,222** | ₱441,045 | ₱543,742 |
| Additions to (reductions in) income tax resulting from: | | | |
| Nontaxable equity in net earnings of an associate | **(3,106)** | (3,065) | (3,667) |
| Interest income subjected to final tax | **(15,255)** | (7,192) | (11,986) |
| Nondeductible expenses | **325** | 8,941 | 850 |
| Remeasurement to prior period balance related to the changes in tax rates due to CREATE Act | **–** | 18,032 | – |
| Others | **–** | (2,789) | (4,116) |
| Provision for income tax | **₱332,186** | ₱454,972 | ₱524,823 |

e. *CREATE Act*
On March 26, 2021, the President of the Philippines signed Republic Act (RA) 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. The CREATE Act took effect on April 11, 2021. The CREATE Act reformed corporate income taxes and incentives in the country by implementing the changes to the current tax regulations. Effective July 1, 2020, some of these changes are as follows:

- Reduction of RCIT rate from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Reduction of MCIT rate from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As clarified by the Philippine FRSC in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Group were subjected to lower RCIT rate of 25%, or MCIT rate of 1%, whichever is applicable, effective July 1, 2020. The reduced amounts were reflected in the Group's 2020 annual income tax return. However, for financial reporting purposes, the changes were only recognized in the 2021 financial statements. The CREATE Act also reduced the Group's deferred tax assets and liabilities as of December 31, 2020 and provision for deferred tax for the year then ended by ₱76.91 million and ₱64.19 million, respectively.

## 24. Contracts and Commitments

The Parent Company entered into license agreements with Sunkist Growers, Inc., Rovio Entertainment Ltd., and Turner Broadcasting System Asia Pacific, Inc. whereby the licensors granted the Company the non-exclusive license to manufacture, market, distribute and sell the licensed products. The Parent Company agreed to pay a fixed amount of royalty every year, as stipulated in the agreements. Unpaid royalty, included under "Accrued expenses" account, amounted to ₱2.64 million and ₱4.10 million as of December 31, 2022 and 2021, respectively (see Note 14).

URICI has a service agreement with Unilever IP Holdings which URICI pays a service fee equivalent to a certain % of third-party net sales of all agreed products and total net sales of all agreed product less packaging material cost. URICI also has an existing service agreement with Unilever Philippines Inc., whereby the latter render certain administrative support, back office and related services to the URICI.

## 25. Earnings Per Share

The Group does not have potentially dilutive common shares in 2022, 2021 and 2020. Therefore, the basic/dilutive earnings per share are the same.

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Net income attributable to equity holders of the Parent Company (a) | **₱1,068,762** | ₱1,309,398 | ₱1,286,360 |
| Weighted average number of common shares outstanding (b) | **3,369,549,358** | 3,369,549,358 | 3,429,735,595 |
| Basic/diluted earnings per share (a/b) | **₱0.32** | ₱0.39 | ₱0.38 |

## 26. Financial Instruments

The following table summarizes the carrying values of the Group's financial assets and financial liabilities as of December 31:

| | **2022** | 2021 |
|---|---|---|
| **Financial Assets** | | |
| Cash on hand | **₱37,018** | ₱22,071 |
| Cash in banks and cash equivalents | **3,467,631** | 2,033,713 |
| Trade receivables | **1,510,119** | 1,495,838 |
| Advances to related parties | **99,787** | 99,727 |
| Nontrade receivables | **123,169** | 130,768 |
| Advances to officers and employees | **17,506** | 17,097 |
| Other receivables | **30,618** | 30,002 |
| | **5,285,848** | 3,829,216 |
| Financial assets at FVOCI | **1,806,403** | 3,548,727 |
| | **7,092,251** | 7,377,943 |
| **Other Financial Liabilities** | | |
| Bank loans | **1,000,000** | 600,000 |
| Accounts payable and other current liabilities* | **5,419,646** | 4,858,126 |
| Advances from related parties | **17,660** | 17,652 |
| Lease liabilities | **356,608** | 351,883 |
| | **₱6,793,914** | ₱5,827,661 |

**Exclusive of government payables and other nonfinancial liabilities amounting to ₱136.33 million and ₱86.1 million as of December 31, 2022 and 2021, respectively.*

*Cash, cash equivalents, trade receivables, nontrade receivables, advances to officers and employees, other receivables, accounts payable and accrued liabilities and advances from related parties.* The carrying amounts of these instruments approximate their fair values due to their short-term maturities and demand features.

*Financial Assets at FVOCI.* The fair value of the investments as of December 31, 2022 and 2021 amounted to ₱1,806.40 million and ₱3,548.73 million, was determined by reference to level 2 quoted market bid prices of bonds with similar terms and nature at the close of business on the reporting date.

*Lease Liabilities.* The fair value is equivalent to the carrying value which approximates the present value of cash amount that would be fully settled as at reporting date.

## 27. Financial Risk Management Objectives and Policies

The Group's principal financial instruments include non-derivative instruments such as cash and cash equivalents, short-term cash investments, financial assets at FVOCI, accounts receivable, bank loans, accounts payable and accrued liabilities, and advances to and from related parties. The main purpose of these financial instruments includes raising funds for the Group's operations and managing identified financial risks. The Group has various other financial assets and financial liabilities such as other current receivables, other current assets and customers' deposits which arise directly from its operations. The main risk arising from the use of financial instruments is credit risk, liquidity risk, interest rate risk and foreign exchange risk.

*Credit risk*
Credit risk arises from the risk of counterparties defaulting. Management is tasked to minimize credit risk through strict implementation of credit, treasury and financial policies. The Group deals only with reputable counterparties, financial institutions and customers. To the extent possible, the Group obtains collateral to secure sales of its products to customers. In addition, the Group transacts with financial institutions belonging to the top 25% of the industry, and/or those which provide the Group with long-term loans and/or short-term credit facilities.

The Group does not have significant concentrations of credit risk and does not enter into financial instruments to manage credit risk. The Group's gross maximum exposure to credit risk is equal to the carrying amount of its financial assets, before taking into account any collateral and other credit enhancements.

Set out below is the information about the credit risk exposure on the Company's financial assets using provision matrix as of December 31, 2022 and 2021:

**December 31, 2022:**

| | | | Trade receivables | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Days past due | | | | | | |
| | Cash in banks and cash equivalents | Financial assets at FVOCI | Current | < 30 days | <30-60 days | <61-90 days | <91-365 days | >365 days | Impaired Financial Assets | Total |
| Expected credit loss rate | **-%** | **-%** | **0.01%-0.09%** | **0.01%-1.18%** | **0.01%-5.55%** | **0.06%-21.52%** | **3.27%-44.26%** | **52.63%-100%** | | |
| Estimated total gross carrying amount at default | **₱3,467,631** | **₱1,806,403** | **₱812,920** | **₱556,930** | **₱148,736** | **₱40,745** | **₱20,397** | **₱27,228** | **₱300,849** | **₱1,907,804** |
| Expected credit loss | **₱–** | **₱–** | **₱2,066** | **₱16,989** | **₱19,115** | **₱17,988** | **₱14,979** | **₱25,699** | **₱300,849** | **₱397, 685** |

December 31, 2021:

| | | | Trade receivables | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Days past due | | | | | | |
| | Cash in banks and cash equivalents | Financial assets at FVOCI | Current | < 30 days | <30-60 days | <61-90 days | <91-365 days | >365 days | Impaired Financial Assets | Total |
| Expected credit loss rate | -% | -% | 0.01%-0.09% | 0.01%-1.18% | 0.01%-5.55% | 0.06%-21.52% | 3.27%-44.26% | 52.63%-100% | | |
| Estimated total gross carrying amount at default | ₱2,033,713 | ₱3,548,727 | ₱1,109,453 | ₱386,405 | ₱59,531 | ₱43,422 | ₱13,344 | ₱24,511 | ₱181,017 | ₱1,817,683 |
| Expected credit loss | ₱– | ₱– | ₱34,097 | ₱46,369 | ₱14,883 | ₱14,119 | ₱7,339 | ₱24,021 | ₱181,017 | ₱321,845 |

Credit quality of cash in banks, cash equivalents and short-term cash investments are based on the nature of the counterparty and the Group's internal rating system.

Financial assets that are neither past due nor impaired are classified as "Excellent" account when these are expected to be collected or liquidated on or before their due dates, or upon call by the Group if there are no predetermined defined due dates. All other financial assets that are neither past due or impaired are classified as "Good" accounts.

*Liquidity risk*
Liquidity risk arises from the possibility that the Group may encounter difficulties in raising funds to meet commitments from financial instruments.

Management is tasked to minimize liquidity risk through prudent financial planning and execution to meet the funding requirements of the various operating divisions within the Group; through long-term and short-term debts obtained from financial institutions; through strict implementation of credit and collection policies, particularly in containing trade receivables; and through capital raising, including equity, as may be necessary. Working capital requirements, on the other hand, are adequately addressed through short-term credit facilities from financial institutions. Trade receivables are kept within manageable levels.

The following tables show the maturity profile of the Group's undiscounted cash flows from financial assets used for liquidity purposes and other financial liabilities as of December 31, 2022 and 2021.

As of December 31, 2022:

| | Less than 1 year | 1 to less than 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Cash on hand | **₱37,018** | **₱–** | **₱–** | **₱37,018** |
| Cash in banks and cash equivalents | **3,467,631** | **–** | **–** | **3,467,631** |
| Trade receivables | **1,907,804** | **–** | **–** | **1,907,804** |
| Financial assets at FVOCI | **299,759** | **1,506,644** | **–** | **1,806,403** |
| | **₱5,712,212** | **₱1,506,644** | **₱–** | **₱7,218,856** |
| **Financial Liabilities** | | | | |
| Bank loans | **₱1,000,000** | **₱–** | **₱–** | **₱1,000,000** |
| Accounts payable and other current liabilities* | **5,437,306** | **–** | **–** | **5,437,306** |
| Lease liabilities | **150,852** | **315,243** | **286,130** | **752,225** |
| | **₱6,588,158** | **315,243** | **286,130** | **₱7,189,531** |

** Exclusive of government payables and other nonfinancial liabilities amounting to ₱136.33 million as of December 31, 2022.*

As of December 31, 2021:

| | Less than 1 year | 1 to less Than 5 years | More than 5 years | Total |
|---|---|---|---|---|
| Financial Assets | | | | |
| Cash on hand | ₱22,071 | ₱– | ₱– | ₱22,071 |
| Cash in banks and cash equivalents | 2,033,713 | – | – | 2,033,713 |
| Trade receivables | 1,817,683 | – | – | 1,817,683 |
| Financial assets at FVOCI | 2,376,264 | 1,172,463 | – | 3,548,727 |
| | ₱6,249,731 | 1,172,463 | – | 7,422,194 |
| Financial Liabilities | | | | |
| Bank loans | ₱600,000 | – | – | ₱600,000 |
| Accounts payable and other current liabilities* | 4,875,778 | – | – | 4,875,778 |
| Lease Liabilities | 112,333 | 401,034 | 302,725 | 816,092 |
| | ₱5,588,111 | ₱401,034 | ₱302,725 | ₱6,291,870 |

** Exclusive of government payables and other nonfinancial liabilities amounting to ₱86.1 million as of December 31, 2021.*

*Interest rate risk*
The Group's exposure to changes in interest rates relates primarily to the Group's short-term and long-term debt obligations.

Management is tasked to minimize interest rate risk by having a mix of variable and fixed interest rates on its loans. As of December 31, 2022 and 2021, the Group's share in URICI's outstanding bank loans include only short-term loans from local banks and lending investors (see Note 15). URICI is not expecting significant exposures to interest rate risk considering the short-term maturities of its bank loans.

There is no other impact on the Group's equity other than those affecting the statement of income.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short and long-term government debt securities with floating discount rates.

The following table demonstrates the sensitivity to reasonably possible change in the discount rates of government securities, with all other variables held constant, of the Parent Company's other comprehensive income.

| | | Effect on other comprehensive income | |
|---|---|---|---|
| | **Change in discount rates** | **2022** | 2021 |
| Investment in FVOCI | +5% | **(₱13,162)** | (₱6,571) |
| | -5% | **13,300** | 6,618 |

The discount rates of government securities held by the Company as of December 31, 2022 and 2021 ranges from 0.94% to 3.85% and 1.01% to 2.43%, respectively.

*Foreign exchange risk*
The Group's exposure to foreign exchange risk results from the Parent Company's and URICI's business transactions and financing agreements denominated in foreign currencies.

Management is tasked to minimize foreign exchange risk through the natural hedges arising from its export business and through external currency hedges. Presently, trade importations are immediately paid or converted into Peso obligations as soon as these are negotiated with suppliers. The Group has not done any external currency hedges in 2022 and 2021.

A reasonably possible change of –/+1% in 2022 and –/+ 1% in 2021 in United States dollar (US$) exchange rate at December 31, 2022 and 2021 would lead to the following income before income tax movements in the Group's consolidated statements of income:

**December 31, 2022:**

| | | Increase (decrease) in income before income tax | |
|---|---|---|---|
| | **Peso equivalent of US dollar denominated assets/liabilities** | **US dollar weakened by 1% against Philippine peso** | **US dollar strengthened by 1% against Philippine peso** |
| Cash and cash equivalents | **₱747,059** | **(₱7,471)** | **₱7,471** |
| Trade receivables | **68,959** | **(690)** | **690** |
| Trade payables | **1,664** | **17** | **(17)** |
| | **₱817,682** | **(₱8,144)** | **₱8,144** |

December 31, 2021:

| | | Increase (decrease) in income before income tax | |
|---|---|---|---|
| | Peso equivalent of US dollar denominated assets/liabilities | US dollar weakened by 1% against Philippine peso | US dollar strengthened by 1% against Philippine peso |
| Cash and cash equivalents | ₱342,876 | (₱3,429) | ₱3,429 |
| Trade receivables | 38,385 | (384) | 384 |
| Trade payables | 6,381 | 64 | (64) |
| | ₱387,642 | (₱3,749) | ₱3,749 |

The exchange rate of the Peso to the US Dollar is ₱55.76 and ₱50.99 as of December 31, 2022 and 2021, respectively.

There is no other impact on the Group's equity other than those affecting the consolidated statements of income.

## 28. Capital Management

It is the objective of the Group to maintain a capital base that adequately services the needs of its present and future operations while keeping within the capital level required by creditors. The capital base is also sufficient to address present and future uncertainties and risks inherent in the business and changes in the economic conditions. Payment of dividends, return of capital, or issuance of shares to increase capital shall be made accordingly and as may be necessary. No changes were made in the objectives, policies and processes as of December 31, 2022 and 2021.

The table below summarizes the total capital considered by the Group:

| | **2022** | 2021 |
|---|---|---|
| Capital stock | **₱3,651,021** | ₱3,651,021 |
| Additional paid-in capital | **2,060,383** | 2,060,383 |
| Treasury stock | **(758,777)** | (758,777) |
| Retained earnings | **6,378,488** | 6,138,014 |
| | **₱11,331,115** | ₱11,090,641 |

## 29. Leases and Other Matters

Leases

*The Group as lessor*

The Group entered into lease agreements with third parties covering its office spaces. for a period of one (1) to five (5) years, subject for renewal unless terminated by the Group. The leases generally provide for either (a) a fixed monthly rent, or (b) with an escalation rate of 5% to 10% per annum. The lease agreements generally provide fixed monthly rent. The Group records rental income on a straight-line basis over less non-cancellable lease term. Lease income recognized in 2022, 2021 and 2020 amounted to ₱18.30 million, ₱17.18 million and ₱16.72 million, respectively under "Services and others" in the statement of income.

Future minimum rental receivables under non-cancellable operating leases as of December 31 are as follows:

| | **2022** | 2021 |
|---|---|---|
| Within one year | **₱14,600** | ₱9,814 |
| After one year but not more than five years | **5,475** | 11,346 |
| | **₱20,075** | ₱21,160 |

*The Group as lessee*
The Group has lease contracts for various items of warehouses, fleets and depots. Leases of warehouses generally have lease terms between six (6) months and three (3) years. There are several lease contracts that include extension and termination options and variable lease payments.

a. Lease of warehouse space from Edenfield Resources & Development Corp. located at Molson Park, C.A. Yulo Ave., Canlubang Industrial Park, Calamba, Philippines with a monthly rental fee of ₱2.33 million with 5% annual escalation clause. The lease contract shall be for a period of three (3) years and commenced on March 1, 2017 and to expire on February 28, 2020 and was renewed for another two (2) years upon mutual agreement prior to expiration of the lease term. The contract was further renewed for another two (2) years commencing on March 1, 2022 until February 28, 2024 with 3% annual escalation clause

b. Sublease of warehouse space from Fast Services Corporation located at Bldg. 2 PPFC Compound, Brgy. Pulo, Cabuyao Laguna. The sublease shall be for a term of one (1) year commencing on July 1, 2020 and expiring on June 30, 2021, renewable for another two (2) years, subject to mutual agreements on the terms and conditions. The contract was renewed and the monthly rental fee is ₱ 4.18 million with 4% annual escalation clause beginning 2021.

c. Lease agreement with Selecta Wall's Land Corporation for a parcel of land for a period of fifty (50) years from April 1, 1999 until March 30, 2049 with an option to exercise a unilateral and irrevocable option to extend the lease for an additional term of twenty-five (25) years. Total lease payments every year is ₱26.93 million.

d. Various lease agreements for URICI's depots around the Philippines with a monthly rental ranging from ₱0.15 million to ₱6.32 million and terms ranging from 2 years to 10 years.

e. Numerous leases of fleet (e.g., leases of company cars and vans) used on the movement of products and daily operations. The lease contracts shall be for a period of five (5) years without option to renew. Monthly rental fee is ranging from ₱0.01 million to ₱0.05 million.

The Group also has certain leases of equipment and vehicles used in its operations with lease terms of 12 months or less and other equipment considered as low value assets. The Group applies the 'short-term lease' and 'lease of low-value assets 'recognition exemptions for these leases.

The following are the amounts recognized in consolidated statement of income for 2022, 2021 and 2020:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Depreciation expense of right-of-use assets (Note 12) | **₱112,808** | ₱84,425 | ₱84,096 |
| Interest expense on lease liabilities (Note 20) | **26,583** | 28,735 | 34,375 |
| Expenses relating to: | | | |
| Short-term leases included in cost of goods sold and selling and marketing expenses (Notes 17 and 18) | **218,981** | 137,674 | 173,974 |
| Leases of low-value assets included in selling and marketing expenses and general and administrative expenses (Notes 18 and 19) | **8,761** | 3,916 | 4,506 |
| Total amount recognized in consolidated statement of income | **₱367,133** | ₱254,750 | ₱296,951 |

The rollforward analysis of lease liabilities as of December 31, 2022 and 2021 follow:

| | **2022** | 2021 |
|---|---|---|
| At January 1 | **₱351,883** | ₱417,962 |
| Additions | **117,199** | 7,815 |
| Interest expense | **26,583** | 28,735 |
| Lease payments applied to: | | |
| Principal portion | **(112,474)** | (73,894) |
| Interest portion | **(26,583)** | (28,735) |
| At December 31 | **356,608** | 351,883 |
| Less: Current portion of lease liabilities | **100,845** | 50,013 |
| Noncurrent portion of lease liabilities | **₱255,763** | ₱301,870 |

Future minimum rental receivables under non-cancellable operating leases as of December 31, 2022, 2021 and 2020 follow:

| | **2022** | 2021 | 2020 |
|---|---|---|---|
| Within one year | **₱150,852** | ₱112,333 | ₱162,486 |
| After one year but not more than five years | **315,243** | 401,034 | 401,643 |
| After five years | **286,130** | 302,725 | 399,161 |
| | **₱752,225** | ₱816,092 | ₱963,290 |

Events After Reporting Date

*Declaration of Dividends*

On January 5, 2023, the Board of Directors of the Parent Company declared cash dividends amounting to ₱350 million or ₱0.103871 per share to stockholders of record as of January 19, 2023 and paid on February 14, 2023.

## 30. Notes to Statement of Cash Flows

Noncash investing activity

In 2022 and 2021, the Group has non-cash additions to property, plant and equipment amounting to ₱117.20 million and ₱7.82 million arising from additional right-of -use assets.

Changes in liabilities arising from financing activities

**December 31, 2022**

| | **Dividends payable** | **Lease Liabilities** | **Bank Loans** |
|---|---|---|---|
| Beginning of the year | **₱32,303** | **₱351,883** | **₱600,000** |
| Cash flows | **(852,602)** | **(83,625)** | **400,000** |
| Dividend declaration | **854,605** | **–** | **–** |
| Amortization of interest expense | **–** | **26,583** | **–** |
| Addition | **–** | **117,199** | **–** |
| End of year | **₱34,306** | **₱412,040** | **₱1,000,000** |

December 31, 2021

| | Dividends payable | Lease Liabilities | Bank Loans |
|---|---|---|---|
| Beginning of the year | ₱30,719 | ₱417,962 | ₱595,000 |
| Cash flows | (770,995) | (102,629) | 5,000 |
| Dividend declaration | 772,579 | – | – |
| Amortization of interest expense | – | 28,735 | – |
| Addition | – | 7,815 | – |
| End of year | ₱32,303 | ₱351,883 | ₱600,000 |

December 31, 2020

| | Dividends Payable | Lease Liabilities | Bank Loans |
|---|---|---|---|
| Beginning of the year | ₱16,001 | ₱499,522 | ₱978,500 |
| Cash flows | (728,242) | (115,935) | (383,500) |
| Dividend declaration | 742,960 | – | – |
| Amortization of interest expense | – | 34,375 | – |
| End of year | ₱30,719 | ₱417,962 | ₱595,000 |

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Building a better working world

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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
RFM Corporation
RFM Corporate Center
Pioneer corner Sheridan Streets
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of RFM Corporation and its subsidiaries (the Group) as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 31, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Ma. Emilita L. Villanueva
Partner
CPA Certificate No. 95198
Tax Identification No. 176-158-478
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 95198-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-141-2021, November 10, 2021, valid until November 9, 2024
PTR No. 9566019, January 3, 2023, Makati City

March 31, 2023

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**INDEPENDENT AUDITOR'S REPORT ON**
**COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Stockholders and the Board of Directors
RFM Corporation
RFM Corporate Center
Pioneer corner Sheridan Streets
Mandaluyong City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of RFM Corporation and its subsidiaries (the Group) as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022, and have issued our report thereon dated March 31, 2023. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2022 and 2021 and for each of the three years in the period ended December 31, 2022 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Ma. Emilita L. Villanueva

Ma. Emilita L. Villanueva
Partner
CPA Certificate No. 95198
Tax Identification No. 176-158-478
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 95198-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-141-2021, November 10, 2021, valid until November 9, 2024
PTR No. 9566019, January 3, 2023, Makati City

March 31, 2023

A member firm of Ernst & Young Global Limited

**RFM CORPORATION AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES**

**FORM 17-A, Item 7**

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**Statement of Management's Responsibility**

**Consolidated Financial Statements**

Consolidated Statement of Management's Responsibility for Financial Statements
Report of Independent Public Accountants
Consolidated Balance Sheets as of December 31, 2021, and 2020
Consolidated Statements of Income for the years ended December 31, 2021, 202,0 and 2019
Consolidated Statements of Comprehensive Income for the years ended
December 31, 2022, 2021 and 2020
Consolidated Statements of Changes in Equity for the years ended
December 31, 2022, 2021 and 2020
Consolidated Statements of Cash Flows for the years ended
December 31, 2022, 2021 and 2020
Notes to Consolidated Financial Statements

**Supplementary Schedules**

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| C. | Amounts Receivable from Related Parties which are eliminated during Consolidation of Financial Statements | 2 |
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| G. | Guarantees of Securities of Other Issuers | * |
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* *These schedules, which are required by SRC Rule68, have been omitted because they either are not applicable or does not exceed 5% of the total assets shown in the related Consolidated Balance Sheet.*

**RFM CORPORATION AND SUBSIDIARIES**
**Schedule A. Financial Assets**
**For the year ended December 31, 2022**
(Amounts in Million Pesos unless otherwise stated)

| Name of Issuing entity and association of each issue | Number of shares or principal amount of bonds and notes | Amount shown in the Balance Sheet | Valued based on market quotation at end of reporting period | Income received and accrued |
|---|---|---|---|---|
| **AFS Financial Assets** | | | | |
| Republic Dynamics Corporation | 3,989,846 | – | Not listed | 0 |
| PSI Technologies, Inc., (formerly PACSEM) | 2,253 | – | Not listed | 0 |
| Philippine Long Distance Telephone Company, Inc. | 5,670 | – | Yes | 0 |
| Philippine Exporters Trading Corporation | 1 | – | Not listed | 0 |
| Philtown Inc. Common | 389,382 | – | Not listed | 0 |
| Universal Rightfield | 500,000 | – | Not listed | 0 |
| Wellex Industries | 280,000 | – | Yes | 0 |
| **Cash and cash equivalents** | – | | | 2 |
| BDO Unibank, Inc. | 474 | 474 | Not applicable | |
| Philippine Bank of Communications | 371 | 371 | Not applicable | |
| Security Bank | 319 | 319 | Not applicable | |
| Maybank Philippines, Inc. | 276 | 276 | Not applicable | |
| CTBC Bank | 141 | 141 | Not applicable | |
| Hongkong and Shanghai Banking Corporation | 120 | 120 | Not applicable | |
| China Banking Corporation | 59 | 59 | Not applicable | |
| Union Bank of the Philippines, Inc. | 56 | 56 | Not applicable | |
| Bank of the Philippine Islands | 32 | 32 | Not applicable | |
| Robinsons Bank Corporation | 20 | 20 | Not applicable | |
| Philippine National Bank | 16 | 16 | Not applicable | |
| Mizuho Bank, Ltd. | 4 | 4 | Not applicable | |
| **Financial Assets at FVOCI** | | | | 61 |
| Bank of the Philippine Islands | 1,806 | 1,806 | Not applicable | |

**RFM CORPORATION AND SUBSIDIARIES**
**Schedule C. Amounts Receivable/Payable from Related Parties which are eliminated during the Consolidation of Financial Statements**
**For the year Ended December 31, 2022**
(Amounts in Million Pesos unless otherwise stated)

| Name and Designation of Debtor | Balance at the beginning of period | Additions | Amounts Collected | Amounts Written Off | Current | Non-current | Balance at the end of period |
|---|---|---|---|---|---|---|---|
| RFM Foods Philippines Corporation | 145 | - | - | - | - | - | 145 |
| Filipinas Water Bottling Company, Inc. | 13 | - | - | - | - | - | 13 |
| **Intercompany Balances, net** | **158** | - | **-** | **-** | **-** | **-** | **158** |

**RFM CORPORATION AND SUBSIDIARIES**
**Schedule D. Intangible Assets - Other Assets**
**For the year Ended December 31, 2022**
(Amounts in Million Pesos unless otherwise stated)

| Name and Designation of Debtor | Beginning Balance | Additions at Cost | Charged to Cost and Expenses | Charged to other accounts | Other changes additions (deductions) | Ending Balance |
|---|---|---|---|---|---|---|
| Goodwill | 191 | - | - | - | - | 191 |
| Trademark | 2,081 | - | - | - | - | 2,081 |
| **Total** | **2,272** | **-** | **-** | **-** | **-** | **2,272** |

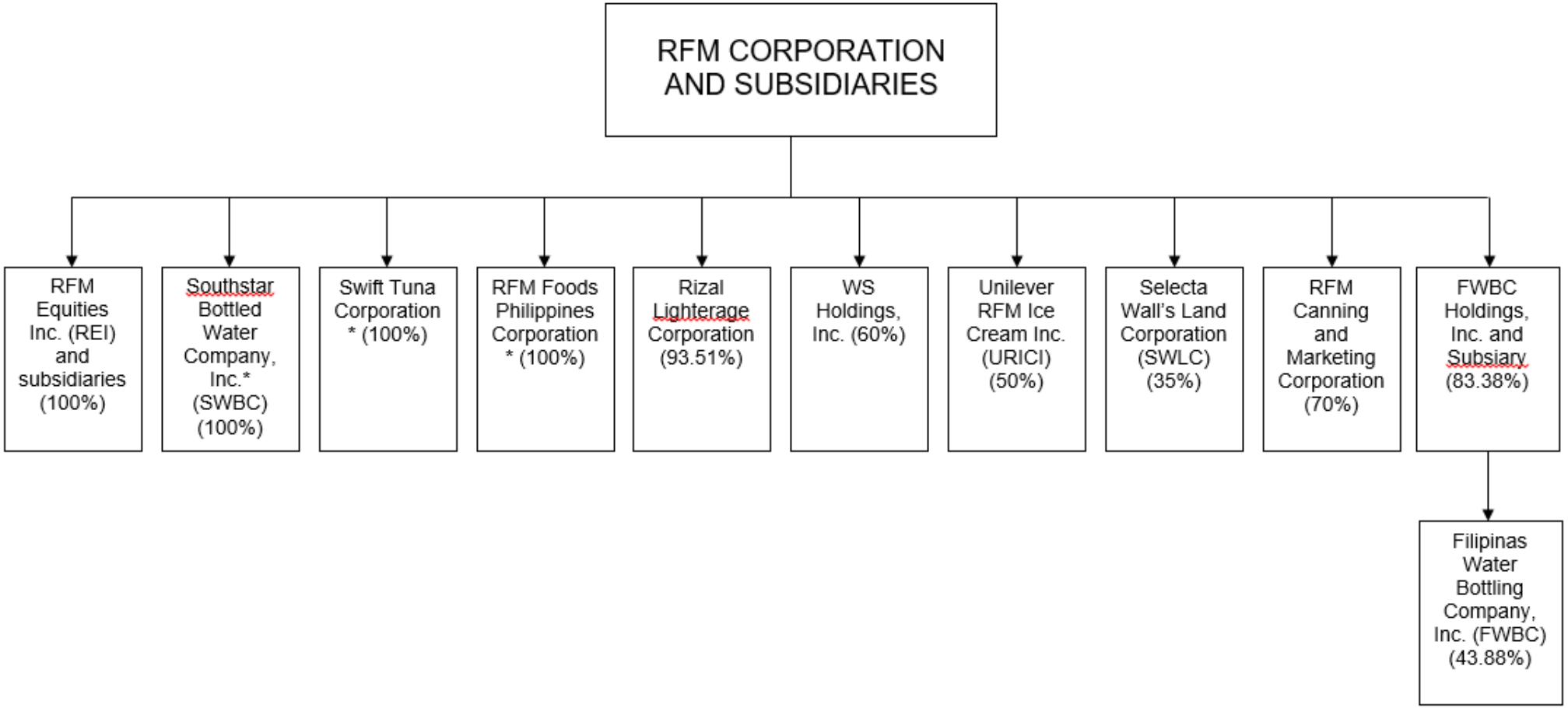
**RFM CORPORATION AND SUBSIDIARIES**
**Schedule H. CAPITAL STOCK**
**For the year Ended December 31, 2022**

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding as shown under related Balance Sheet caption | Number of Shares Reserved for Options, Warrants, Conversions, and Other Rights | Number of Shared Held By | | |
|---|---|---|---|---|---|---|
| | | | | Related Parties | Directors, Officers and Employees | Others |
| Common stock – P1 par value | 3,978,265,025 | 3,651,021,310 | - | - | 918,831,521 | 2,732,189,789 |
| Treasury shares | - | (281,471,952) | | | - | (281,471,952) |
| | 3,978,265,025 | 3,369,549,358 | - | - | 918,831,521 | 2,450,717,837 |

**RFM CORPORATION**
**Schedule J. Reconciliation of Retained Earnings Available for Dividend Declaration**
**For the year Ended December 31, 2022**
(Amounts in Thousand Pesos unless otherwise stated)

| | |
|---|---|
| Unappropriated Retained Earnings, Beginning | **5,592,140** |
| Add (less): | |
| Treasury Shares | **758,777** |
| **Retained Earnings as adjusted, 1 January 2021** | **6,350,917** |
| **Add: Net Income actually earned/realized during the period** | |
| Net income during the period closed to Retained Earnings | **1,206,364** |
| **Net income actually earned during the period** | **1,206,364** |
| Add (less): | |
| Dividend declarations during the period | **(854,605)** |
| Remeasurement gain on defined benefit retirement plan | **16,378** |
| Treasury Shares | **(758,777)** |
| | **(390,640)** |
| **TOTAL RETAINED EARNINGS AS OF 31 DECEMBER 2022 AVAILABLE FOR DIVIDEND** | **5,960,277** |

**RFM CORPORATION AND SUBSIDIARIES**
**Schedule K. Conglomerate Mapping**
**As of December 31, 2022**



**RFM CORPORATION AND SUBSIDIARIES**
**Schedule L. Financial Soundness Indicators**

| | | Years ended December 31 | | |
|---|---|---|---|---|
| | | **2022** | 2021 | 2020 |
| 1 | Current Ratio | **1.31** | 1.44 | 1.50 |
| 2 | Debt-to-Equity Ratio | **0.56** | 0.50 | 0.51 |
| 3 | Asset-to-Equity Ratio | **1.56** | 1.50 | 1.51 |
| 4 | Interest Rate Coverage Ratio | **25.59** | 39.53 | 30.20 |
| 5 | Gross Profit Rate | **30.12%** | 35.19% | 36.45% |
| 6 | Net Income Rate | **5.51%** | 7.76% | 8.20% |